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What's Next?

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NATIONAL PETROLEUM NEWS

DECEMBER 1982 VOL. 74 NO. 12

20 Regional News

20 **West Coast**
Arco street moves seen spurring international price fight
21 **Midwest**
National Oil Jobbers Council may regain several lost members
22 **Rockies**
Retail cash and credit spreads upset Denver market
23 **South**
Phillips jobbers adjust to company saturation of Waco, Tex., market
25 **East Coast**
Are 35 dry holes spelling doom for Atlantic seaboard drilling?

27 General News

27 Consumer research shows where Arco's no-card volume gains are originating
28 Before all the changes: 1981 major company credit card sales
30 Dealer restiveness and competition prompt Amoco to reduce card fee
30 Majors' refining and marketing operations look healthier in second half
32 Reagan signs government grain-to-alcohol conversion bill
32 Crude oil reserves slip in 1981 while natural gas gains
32 Exxon and two other companies prevail in DOE overcharge suit
37 State and federal gasoline taxes now average 14.11¢ gal.
37 Congressional arm predicts huge volume declines for oil products
37 Two Indiana firms hope to produce $25-bbl. shale oil
39 Oxy/Cities shed Citgo's gas company to help pay acquisition costs
39 Shell abandons its nationwide conversion to metric pricing
39 U.S. Transportation Dept. tests device for 75-octane gasoline
39 Congress makes Subchapter S corporations more attractive

42 Features

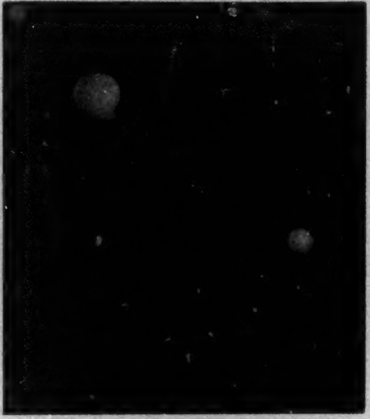
42 **Cover Report**
1983 Lookahead: What's Next
- U.S. petroleum supply and demand forecast
- Capital spending projections for oil marketing
- API: Is U.S. headed for more trouble?

48 **Convenience Stores**
Using varied approaches, marketers find banking boosts sales and traffic
- Crown Central tries 'quickie' mini C-store conversions

51 **Management**
Lawyers market a do-it-yourself kit for cutting jobber legal costs
52 **Taxes**
Reagan tax boost makes it tougher to save a tax buck
54 **TBA/Aftermarket**
Oil TBA Group sees 1983 as a 'turning point'
57 **Fuel Oil**
Low inventories pose no special problem, according to a jobber survey
61 **Legal—Sam Borenkind**
How to frame and enforce an employee confidentiality agreement

Departments

63 About Oil People
9 Ahead of the News
11 Catching Up
66 Classified
10 Late News
17 Letters & Comment
5 Looking Things Over
58 Product Briefs
65 The Way It Was
12 Trends & Marketplace



Just about all of the white-knuckle things that happened to oil marketers in 1982, particularly to jobbers, are in for repeat performances in 1983—with the additional proviso that the going will be even tougher in the first half of the new year. Page 42.

Cover photo by Thomas Olson.

Arco is coming off its best quarterly earnings performance in the marketing unit's short history. September volume at Arco lessee-dealer stations was up 70% over 1981—and some 25% of that cash-only business came from drivers who once patronized the independents, according to outside research. Apparently, cash gains and cost savings since dropping its credit card far outweigh losses. Page 27.

Banking, whether from separate free-standing kiosks or in-store automatic teller machines, is gaining ground at convenience store/gasoline locations. The innovation is seen as generating greater customer traffic, plus a low-investment, high-return profit center for expensive retail properties. Page 48.

• TRENDS

The gasoline credit card battle means different things to different people, and to many independent gasoline marketers, it is a wolf in sheep's clothing. Many independents fear drastic consequences may arise from a trend that seems so innocuous as cost-cutting [see pages 10, 20 and 27].

Since Texaco started charging marketers a credit card processing fee in September 1981, almost all major oil companies and a few large independents have taken steps to get out from under consumer credit costs. Most independents don't quarrel with that.

But Arco's version was to jettison credit cards and cut wholesale prices an amount claimed to be equivalent to their credit costs, in effect pitting the major against independents who have operated without credit cards for a long time.

Jay Colin, executive vice president of State Oil, a relatively small private brander based in Los Angeles, says, "The last thing in the world I would want to be right now is a large independent. For the first time ever, they are forced to price dollar for dollar and penny for penny against a major."

Hand-in-hand with the surcharge movement, so-called "discount for cash" programs, which had trickled into the market even before Arco's radical move, came cascading in. Soon, practically everybody who had credit cards was charging marketers a processing fee, cutting wholesale prices and promoting retail discounts for cash.

" 'Discount for cash' puts further pressure on the independents because it brings other majors down close to Arco," Colin observes.

Still another shoe fell. Shell announced it would accept all credit cards and charge no more for credit purchases. Sun did the same.

If the plethora of major-brand discounting didn't make independents uncomfortable, Shell's "no charge for credit" program did. Independents could visualize Shell cutting wholesale prices to match Arco, and Arco cutting wholesale prices further to equalize for the credit cards Arco didn't have, and Shell matching Arco, and so on, ad nauseam if not ad infinitum.

The whole process associated with the credit card battle has pushed gasoline prices down abnormally, prompting the head of an East Coast independent to observe, "When you see gasoline selling as much as 10¢ or 12¢ below No. 2 fuel [on the spot market], you know something is out of kilter."

To many independents, the low wholesale gasoline prices seemed out of step with firm crude oil prices. The Society of Independent Gasoline Marketers of America (SIGMA) charges that "revenues from crude oil production and other upstream operations" are being used "to subsidize refining and marketing."

SIGMA's executive director Ken Doyle says the association "is not going to sit around and allow the majors to use their upstream operations to put us out of business downstream."

SIGMA and others have charged that Arco is using a price advantage it enjoys on Alaskan crude oil to be more competitive downstream. In the competitive gasoline market, one company's prices are often matched by others'.

Jack Blum, head of a Washington, D.C., law firm representing Independent Gasoline Marketers Council (IGMC), estimates Arco's advantage to be $2 to $3 bbl., conservatively $2 bbl. (5¢ gal.). His group and others are zeroing in on this.

"The Alaskan advantage isn't going to be with us very long," Blum says. "The rest of us are going to see to it that if Arco is going to beat the independents' brains out, they're going to do it with their own money."

SIGMA's Doyle adds, "If subsidization continues, they [major integrated oil companies] are going to end up facing a united coalition of everybody except major refiners, and the coalition will be looking for divorcement or divestiture or some sort of remedial legislation to keep them from doing it."

Independents see other ramifications. One is that majors are sowing seeds that will change their own marketing structures drastically. For example, independents may accelerate conversion of some stations to major brands, putting them in competition with less-price-conscious lessee dealers.

Paul Erdos, executive secretary of Serve Yourself and Multiple Pump Assn. (SYMPA), a California independent group, predicts that within three years there will be one-third fewer major lessee dealers than now.

"The volumes will remain with the supplying companies, but under different circumstances," he says. "Independents who brand up with majors are masters of volume building under the most hostile conditions."

—Mark Emond

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

SEPTEMBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Leaded Premium
U.S. City Avg.	$1.295	$1.236	$1.308	$1.441
Regions:				
Northeast	1.299	1.242	1.303	NA
North Central	1.291	1.247	1.313	NA
South	1.269	1.209	1.282	NA
West	1.330	1.256	1.344	1.454

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	10/29/82	10/30/81
Gasoline (total)	231,934	236,480
Gasoline (unleaded*)	96,509	91,743
Kerosine **	44,890	44,666
Distillates	168,901	200,785
Residual	60,947	75,349

**Included in gasoline total.*
***Includes jet fuel.*
Source: American Petroleum Institute.

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earnings level in any single quarter in the company's history.

The $277-million in reported income—a 19.5% rise over third-quarter 1981—also betters the $273-million earned over the entire first half of 1982.

For the first nine months, Arco earnings of $550-million represented a nearly 45.3% increase over the same period in 1981, the company reports. The refining and marketing unit, in fact, helped parent Atlantic Richfield post the only black ink among the nation's top eight oil companies for nine-month earnings. Atlantic Richfield reported a 3% increase in net income for the nine-month period [see page 30].

"These figures," said president and CEO William Kieschnick, "reflect both improved product margins and the considerable success that Atlantic Richfield has achieved in the retail gasoline marketplace since relinquishing its costly gasoline credit card operation last April 15, and passing on the savings to its dealers in the form of lower prices."

The "lower prices" have raised charges of predatory pricing and market-wrecking from other marketers. NPD study figures show that Arco branded pump prices for all grades and services since April have consistently been 5% to 6% below the majors.

Marketers hoping for Arco's price pressure to ease may have found some solace in a 2¢-gal. wholesale price increase that Arco leveled nationwide in October. Relief will come only on a sporadic basis, however, as competitive price allowances (CPAs) for selected Arco dealers may mitigate the 2¢-gal. hike in many areas.

Arco rocked the market last April by slashing its dealer tankwagon prices 2.8¢ gal. and taking the posture of a major that would call the hand of any independent.

'One Goal: Sell Gasoline'

In putting through the price increase, had Arco reached a market share goal that enabled it to stop "leaving money on the table" from lowballing prices?

"We don't have a market share goal," responds Scott Stanworth, manager of retail sales. "Our objective is to sell what gasoline we have available, and sell it through whatever class of trade will provide as much profit as possible."

The NPD study also notes that Arco prices have been 3% below the postings of independent marketers. Arco, however, has maintained steadfastly that it is not out to undercut the price-cutters.

"Our pricing has been geared to allow us to price with the most competitive element in the marketplace," says Stanworth. He adds that the company does not keep records comparing Arco's retail prices to other marketers' prices.

"We haven't led the marketplace in that sense," he says. "Rather, we have followed it."

A few West Coast independents, however, have been so angered by Arco's gallonage gains at their expense that they are considering a suit against the company, reports say. As of November, though, lawyers representing independents were hard-pressed to find firm legal grounds for a suit.

All marketers, not just independents, have felt the presence of Arco on their stomping grounds. About 60% of Arco's total volume last spring came from customers of competing majors and from those who already had been using cash at Arco's pumps.

Of the new customers who switched to Arco last April, most formerly were major brand buyers, according to NPD. (The market research firm did not report brand-switching behavior for individual companies, but did say that such brand switching to Arco was fairly evenly split among former customers of competing major companies.)

In the Northeast, major companies and independents each suffered about the same amount of brand-switching to the Arco-branded outlet. In some mid-continent states, however, 65% of the brand-switching to Arco involved majors' customers. (The other 35% come from motorists who once patronized independent marketers, says NPD.)

Brand-switching results, however, are only for the time period roughly a month before and a month after Arco dropped its card. It is not known what kind of brand loyalty Arco or the other marketers experienced in the months since then.

—Thomas Olson

1981 Credit Card Sales: Will They Ever Be the Same?

With the surcharge, free-card and no-card policies of a number of majors, the oil company credit card picture has changed vastly in the past year. But figures just compiled and released for 1981 credit card sales offer an appropriate benchmark for comparing results of these new company tactics.

As results become known, it may be that 1981 was the oil industry's banner year in the credit card sales department—with the various new policies tending to dampen the volume of card transactions.

In 1981, according to *The Nilson Report*, a private newsletter directed to top merchandising executives, Texaco still had more credit cards in use than any other oil company, but Exxon's plastic garnered the No. 1 spot in dollar volume of sales.

More than $26-billion in oil company credit card sales were reported by the top 22 issuers in 1981—with the number of cards outstanding totaling 107-million, 12-million less than in 1979, a shrinkage of 10.1% [see table on facing page for details].

The latest Nilson survey is the first issued in about two years, making 1979 the last previous year for which industry-wide statistics were recorded.

Taking note of the many changes which have occurred since last Jan. 1, including Arco's abandonment of its credit card, publisher Spencer Nilson acknowledges that the contemporary credit card situation is in such a state of flux that it is almost impossible to keep track.

Nilson doesn't foresee the day coming when all major oil companies will do as Arco did. Nor is he convinced that the discount-for-cash programs contrived by Exxon, Mobil, Amoco and others will last for long.

"Credit cards will always play a role in oil marketing," he says. "As for cash discounts, I don't know of any industry where they lasted forever. Supply-demand factors eventually even these things out."

Sales Up 23%

In addition to the $26-billion in sales on oil company cards, sales generated by bank cards and travel/entertainment cards such as American Express brought 1981's grand total of oil-channel credit card sales to $28.3-billion. The more or less comparable figure in 1979, according to Nilson's data, was $23-billion—revealing a 23% rise in card revenues for the two-year period.

Texaco, which reported a total of 17.7-million credit cards in use in 1979, had only 13-million active cards in 1981. A company spokesman explains that this apparently resulted from re-issuance of cards with two-year expiration dates and the weeding out of cardholders who had not used their accounts during that period.

Amoco, Exxon, Shell, Mobil and Gulf, respectively, were next in line in the first half dozen.

In dollar sales, however, Exxon topped them all with a volume of $3.5-billion.

Amoco was next, only a hoot and holler away. Others in the $1-billion-plus class were, in descending order, Shell, Texaco, Mobil, Chevron, Gulf, Union, Arco and Standard of Ohio.

For 1979 credit card data, see the *NPN Factbook*, 1982 edition, page 103.

22 Largest Oil Company Card Issuers—1981

	Oil Company Credit Cards						
Oil Companies	Total Cards (millions)	Total Accounts (millions)	Accounts Billed Monthly (millions)	Sales Volume ($millions)	Bank Card Sales Volume ($millions)	T&E Card Sales Volume ($millions)	Total Credit Sales ($millions)
Texaco	13.00	7.00	3.00	$ 2,600.00	—	—	$ 2,600.00
Amoco	12.50	6.90	3.60	3,300.00	—	$ 20.00	3,320.00
Exxon	11.90	6.60	3.60	3,500.00	—	—	3,500.00
Shell	11.50	6.00	3.50	2,700.00	$ 400.00	—	3,100.00
Mobil	11.30	5.80	3.00	2,500.00	—	—	2,500.00
Gulf	10.00	5.00	2.30	2,100.00	—	—	2,100.00
Chevron	8.00	4.30	2.60	2,400.00	400.00	—	2,800.00
Union	5.90	3.50	2.10	1,800.00	274.00	—	2,074.00
Arco	5.90	3.00	1.75	1,293.30	1.70*	—	1,295.00
Sunoco/DX	4.80	3.00	1.00	750.00	110.00	35.00	895.00
Phillips	3.70	2.20	.90	780.00	195.00	—	975.00
Sohio	2.10	1.20	.90	1,100.00	69.00	—	1,169.00
Citgo	1.60	1.00	.40	270.00	80.00	—	350.00
Conoco	1.30	1.00	.40	310.00	25.00	—	335.00
Marathon	.80	.50	.20	150.00	—	—	150.00
Diamond	.70	.50	.10	140.00	30.00	10.00	180.00
Fina	.60	.40	.20	162.00	—	—	162.00
Total	.50	.30	.20	215.00	145.00	—	360.00
Champlin	.40	.20	.07	67.00	20.00	—	87.00
Kerr-McGee	.40	.20	.08	79.00	18.00	—	97.00
Ashland	.20	.10	.06	57.00	60.00	—	117.00
Husky	.20	.10	.07	128.60	15.10	—	143.70
Totals	**107.30**	**58.80**	**30.03**	**$26,401.90**	**$1,842.80**	**$865.00**	**$28,309.70**

*Began honoring bank cards October 1981.
Source: The Nilson Report, November 1982.

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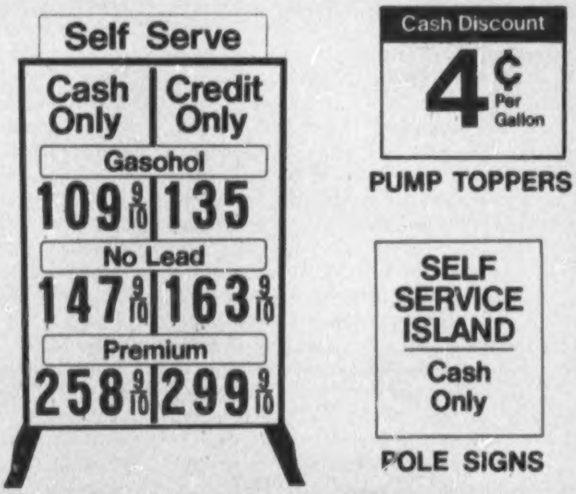

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Amoco Reconsidering the Card Fee Concept?

Bowing to heavy pressure from dealers nationwide, Amoco Oil Co. last month reduced its industry-high 4% credit card surcharge to 3%.

Ever since it announced its credit card fee and discount for cash, Amoco has maintained that the programs would make dealers more competitive in the marketplace. On the other hand, dealers have contended all along that the programs actually make them less competitive, pushing them deeper and deeper into the red.

All over the U.S. in recent months, Amoco dealers have staged a number of quiet rebellions. The restiveness, combined with competitive considerations about such programs as Shell's "free card" approach, may be leading Amoco to re-evaluate the surcharge concept.

In two Midwest cities, dealers rose up and threatened the company with lawsuits and job actions.

Saying that Amoco had been "deaf to their pleas" for changes in the credit card program, Madison, Wisc., Amoco dealers decided to get the company's attention by deliberately selling less product. So, they raised their pump prices and took down their price and discount-for-cash signs.

In addition, 30 of the dealers, believing a credit card surcharge is a violation of the Wisconsin Fair Dealership Law, stopped paying Amoco the required 4% fee. The law states that an oil company "shall provide a dealer at least 90 days' written notice of termination, cancellation, nonrenewal or substantial change in competitive circumstances."

The recalcitrant dealers said Amoco's credit card fee represented a "substantial change" in their competitive circumstances, and the company was therefore required to give them 90 days' notice, but did not.

In response, B. E. Stevens, Amoco's district manager in Milwaukee, sent a letter to every dealer who was withholding the credit card fee, threatening termination of their credit card contracts within 10 days. The letter stated that the company had, in fact, notified the dealers of the change in the credit card agreement (although he did not say when or how the notification was made).

A week later, with Amoco's termination deadline approaching, the fee-withholding dealers met and decided to pony up the money they owed. By then, however, they had found what they thought was an Amoco violation of their credit card contracts. (The dealers contended that the company violated a clause in the agreement which specifies there would be no charge to the dealers for the credit card program.)

Just before Amoco announced the fee reduction, a group of 50 Madison dealers told the company they were considering legal action over the alleged violations of both the credit card contract and the Fair Dealership Law.

While dealers were slugging it out with Amoco in Wisconsin, more than 75 angry Chicago-area Amoco dealers were making plans to draw Amoco's attention in their direction.

Led by Robert Jacobs and Stan Rodman of the Illinois Gasoline Dealers Assn. (IGDA), the dealers planned to:

—partially debrand;

—burden Amoco with extra paperwork and bookkeeping by submitting separate checks for credit fees and product;

—give credit card customers complaint/protest postcards addressed to Sam Van Sickle, Amoco's marketing vice president;

—stop buying from Amoco's "Atlas" TBA program; and,

—begin accepting alternative payment such as personal checks.

"They're hurting us, so let's hurt them," Jacobs said. "We want to communicate to them that dealers are having serious problems in the streets."

In addition to the IGDA efforts, a delegation from the 170-member Chicago Metropolitan Amoco Dealers Assn. (MADA) met with Robert Rausher, Midwest regional vice president, and six other Amoco executives "to find some way to work with the company to resolve the problems—our survival depends on it."

Although Amoco says the credit fee reduction stems from "a review of credit card use rates, lower interest rates and the introduction of competitive discount programs with lower fees," observers say dealer pressure and complaints certainly helped.

In the end, however, the 1% reduction was less a victory than it seemed: At the same time, Amoco also cut the dealer tankwagon and jobber discount rates that are part of the discount-for-cash and credit card packages. **—Tim Green**

Second-Half Recovery for Oil's Downstream Units

Lower crude oil costs, higher refined product sales and heavy drawdowns of relatively low-cost LIFO inventories brought a number of oil company refining and marketing divisions into the black in 1982's third quarter. Overall operations, however, produced flat to dismal results for many of the top oil companies [see table on page 32].

Of the big eight companies, only Atlantic Richfield—boosted by the best quarter in its refining and marketing unit's (Arco Petroleum Products Co.) history—had a plus sign in its earnings report [for more details see page 27].

Exxon, the nation's largest oil company, literally treaded water in the third quarter but wound up the first nine months at −29%. Minus signs proliferated among such companies as Mobil (−48%), Standard of California (−47%), Texaco (−46%), Sun (−43%) and Gulf (−33%).

Shell and Standard of Indiana were not too far off their nine-month 1981 pace with declines of 6% and 8%, respectively.

Among smaller companies, results of Ashland, Amerada Hess, Conoco and Marathon—the latter two acquired by other companies recently—stood out favorably by comparison.

Ashland, whose fiscal year ended Sept. 30, reported a fourth-quarter earnings gain of 54%, and a net increase for the full year of 101%. Amerada Hess had a whopping third-quarter improvement of 84%, while reporting that earnings for the full nine months remained 24% below year-ago levels.

If it had not been for Conoco's earnings, said DuPont, the parent company could not have reported a third-quarter profit. However, DuPont, which acquired Conoco in 1981 in a bitter takeover struggle, did not disclose Conoco's earnings.

U.S. Steel, saying that the Marathon Oil subsidiary had bailed it out of a difficult financial situation in the third quarter, indicated that the latter was probably headed for record earnings in 1982. Marathon's previous high earnings were $371-million in 1980, prior to merging with U.S. Steel early this year.

Downstream Profitability

If there were any surprises in third-quarter reports—perhaps foretelling what year-end reports will reveal at the end of this month—it was the performance of the various refining and marketing divisions. At a time of supposedly depressed prices and declining consumption, several companies said their refining, marketing and transportation operations made money—good money—in the three-month period. (The July-September period, of course, coincides with the bulk of the traditional driving season.)

Most notably, Atlantic Richfield's Arco marketing unit delivered $277-million in pre-tax earnings—more income

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than it generated in the entire first half—apparently as a result of its dramatic no-credit-card, low-price retail strategy.

Shell Oil, too, said its oil products section (refining, marketing, transportation) "earned a record $138-million in the third quarter, an increase of $17-million over last year."

Exxon and Amoco said they benefited not only from higher refining and marketing profits—"higher sales volumes and improved margins" in Amoco's case—but from heavy withdrawals from low-cost LIFO (last-in, first-out) inventories.

Exxon U.S.A. earned $256-million in its refining and marketing operations in the first nine months of this year versus $35-million in the like period of 1981. Amoco's downstream operations contributed earnings of $100-million during the first three quarters compared to losses totaling $153-million in the comparable 1981 period.

And, Gulf Oil, benefiting from lower crude oil costs and a 9% increase in third-quarter refined product sales, reported nine-month earnings of $217-million in refining and marketing, "entirely from the reduction of LIFO inventories." The results, the company said, enabled its downstream operations to "move back into the black."

Third Quarter and Nine Month Earnings

(Millions of dollars)

Company	3rd Qtr. 1982	3rd Qtr. 1981	% Chng.	9 Mos. 1982	9 Mos. 1981	% Chng.
Exxon	$1,070.0	$1,075.0	—	$3,195.0	$4,500.0	(29.0%)
Mobil	323.0	506.0	(36.2)	95[illegible].0	1,846.0	(48.0)
Texaco	303.0	589.0	(48.6)	975.0	1,803.0	(45.9)
Stand. of Calif.	459.0	527.0	(12.9)	952.0	1,810.0	(47.4)
Stand. of Ind.	559.0	608.0	(8.1)	1,411.0	1,538.0	(8.3)
Gulf	146.0	316.0	(53.8)	623.0	930.0	(33.0)
Shell	442.0	471.0	(6.2)	1,166.0	1,242.0	(6.0)
Atl. Richfield	446.9	433.5	3.1	1,242.1	1,201.5	3.4
Stand. of Ohio	487.3	470.0	3.7	1,410.0	1,470.0	(4.1)
Sun	152.0	210.0	(27.6)	386.0	682.0	(43.4)
Phillips	131.6	192.3	(31.6)	460.4	692.8	(33.5)
Getty	178.0	205.2	(13.3)	493.4	640.4	(23.0)
Union	212.8	193.0	10.3	578.9	555.4	4.2
Amerada-Hess	80.1	43.5	84.1	125.0	164.3	(23.9)
Cities Service	25.0	77.6	(67.6)	152.7	225.8	(32.4)
Tenneco	198.0	156.0	26.9	531.0	553.0	(4.0)
Ashland (a)	75.8	49.3	53.8	180.9	90.0	101.0
Kerr-McGee	56.8	50.3	12.9	136.2	145.1	(6.1)
Dia. Shamrock	42.3	54.4	(22.2)	39.6	57.2	(30.8)
Murphy	43.9	41.1	6.8	119.0	124.5	(4.4)
Amer. Petrofina	12.7	21.7	(41.5)	39.6	57.2	(30.8)
Tosco	22.1	19.1	15.7	129.4	(7.5)	—
Total	8.3	(9.5)	—	7.5	(48.9)	—
Quaker State	11.5	9.6	19.8	31.4	20.6	52.4
Pennzoil	53.5	47.5	12.6	138.2	166.9	(17.2)
Husky	17.8	11.8	50.8	(2.0)	30.0	—
Crown Central	8.4	(5.2)	—	2.4	(11.5)	—

(a) 4th qtr. and full year; fiscal ends 9/30.

Now, U.S. Surplus Alcohol

While campaigning in Omaha, Neb., just before the recent elections, President Reagan signed a bill that makes a large amount of government-owned surplus grain available for conversion into alcohol fuels.

According to the government, the Surplus Agricultural Commodities Act will result in 30-million bushels of corn being converted into about 80-million gal. of alcohol in the coming year.

The act stems from projections that the record harvests of the past two years will cause the government stockpile of surplus corn to reach 400-million bushels by October 1983 [NPN—Nov. '82, p29].

Advocates say the act will reduce fuel-alcohol prices by allowing conversion plants to run more efficiently, and will cut government warehousing costs by reducing the stockpile.

Legislative and marketing opponents of the bill point out that alcohol (because of its nearly tax-exempt status in many states) is already reducing gasoline tax revenues and causing gasoline wholesale volumes to drop as more stations switch to cheaper fuel-alcohol blends. They fear the new government grain conversion will only make their problems worse.

U.S. ethanol production is expected to top 400-million gal. in 1982.

Crude Oil Reserves Slip While Gas Gains 1.4%

Department of Energy's annual report on crude oil and natural gas reserves in the U.S. shows that crude oil dropped 1.3% in 1981 while natural gas rose 1.4%.

This marked the fifth straight decline for crude oil, the government says.

Total crude oil reserves as of Dec. 31, 1981, were estimated at 29,426-million bbl. compared with 29,805-million bbl. the preceding year. The 1977 total was given as 31,780-million bbl.

Natural gas's proved reserves were estimated at 201,730-billion cu. ft. at the end of 1981, up 1.4% over 1980's total of 199,021-billion cu. ft.

DOE took over the assignment of estimating proved reserves in 1977. Prior to that, the chore had been handled by committees of American Petroleum Institute and American Gas Assn.

Three Majors Prevail In DOE Overcharge Suit

Exxon U.S.A. and three other major companies have won a federal suit involving claims that they overcharged customers a total of more than $231-million for the period 1974 to 1977.

A New York federal court ruling in October upheld Exxon's position in a joint suit filed against the Department of Energy. The court ruled valid the company's gasoline pricing at company-operated stations during the period in question.

DOE, however, was expected to appeal the ruling to the Temporary Emergency Court of Appeals (TECA).

The suit originally was brought by Mobil in 1979, calling for a court interpretation of a 1977 DOE claim. At that time, DOE said Exxon owed customers $73-million; Mobil owed $38-million; Gulf owed $50-million, and Marathon owed $70-million, according to spokesmen for each company.

Ashland Petroleum last year withdrew from the suit filed jointly in 1979. It agreed in a consent order to pay $19-million to gasoline resellers and give $6.1-million in credit to distillate, aviation and residual fuel customers.

For their part, Exxon and the other major parties argued—and the court agreed—that DOE's 3¢ refiner price rules' interpretation was invalid because the agency tried to impose them retroactively. "The DOE's move represented retroactive amendment of regulations in existence for several years," Exxon's marketing vice president, R. C. Kiddoo, said after the ruling. "The rules here had been stated clearly, and Exxon was in compliance with those rules as originally set out."

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Gasoline Tax Average 14.11¢—Higher Yet?

While both federal and state governments look at gasoline taxes as a potential source of additional income, a recent American Petroleum Institute (API) summary says current tax levies (state plus federal) now average 14.11¢ gal.

State gasoline taxes by themselves average 10.11¢ gal. [see the accompanying API state-by-state tax report].

Many Washington sources believe that the Reagan administration will propose to increase the current 4¢ federal tax. The increase was a hot subject on several occasions this past year, but each time it came up, it was put on the back burner for political reasons.

Most states use a flat cents-per-gallon tax base, but 10 have a variable formula tax that allows the tax to rise (and fall) with the price of gasoline.

With consumption and prices slipping, it would not be surprising to see some of the states with variable formulas taking a second look at their tax base. Variable formulas have been established in Indiana, Kentucky, Maryland, Massachusetts, Nebraska, New Mexico, Ohio, Rhode Island, Washington and the District of Columbia. **N:N**

State Gasoline Tax Rates

State	Per Gal. Tax Rate	State	Per Gal. Tax Rate
Alabama	11.00¢	Montana	9.00¢
Alaska	8.00¢	Nebraska	[illegible]
Arizona	[illegible]	Nevada	12.00¢
Arkansas	9.50¢	New Hampshire	14.00¢
California	7.00¢	New Jersey	8.00¢
Colorado	9.00¢	New Mexico	10.00¢
Connecticut	11.00¢	New York	8.00¢
Delaware	11.00¢	North Carolina	12.00¢
Dist. of Col.	14.00¢	North Dakota	8.00¢
Florida	8.00¢	Ohio	11.70¢
Georgia	7.50¢	Oklahoma	6.58¢
Hawaii	8.50¢	Oregon	8.00¢
Idaho	12.50¢	Pennsylvania	11.00¢
Illinois	7.50¢	Rhode Island	11.00¢
Indiana	11.10¢	South Carolina	13.00¢
Iowa	13.00¢	South Dakota	13.00¢
Kansas	8.00¢	Tennessee	10.00¢
Kentucky	10.00¢	Texas	5.00¢
Louisiana	8.00¢	Utah	11.00¢
Maine	9.00¢	Vermont	11.00¢
Maryland	11.00¢	Virginia	11.00¢
Massachusetts	10.40¢	Washington	12.00¢
Michigan	11.00¢	West Virginia	10.50¢
Minnesota	13.00¢	Wisconsin	13.00¢
Mississippi	9.00¢	Wyoming	8.00¢
Missouri (a)	7.00¢	**Avg. Tax Per Gallon**	**10.11¢**

(a) 11¢ for 1983 if approved by voters in Nov. elections. Compiled by API—Oct. 31, 1982.

Dim Volume Prospects for Year 2000: OTA

Some eye-popping predictions from the congressional Office of Technology Assessment (OTA) suggest that by the year 2000, some automobiles will get 85 miles per gal. of gasoline, passenger-car consumption of gasoline may barely top 1-million b/d, and the synthetic fuels industry may be producing at a rate of 5-million b/d.

Within 18 years, says the agency set up by Congress to keep members informed about technological developments, improvements in automotive fuel efficiency should result in mileage figures of at least 45 mpg and perhaps as much as 85 mpg. Actual efficiency will depend on the pace of technological developments, says the office, as well as demand for fuel-efficient vehicles and the size mix of cars sold.

Due mainly to improved vehicle economy, the office also predicts that passenger-car gasoline consumption will drop from 1980's 4.3-million b/d level to a mere 1.3- to 2.1-million b/d by 2000. Production of synthetic transportation fuels could range anywhere from negligible amounts to 5-million b/d, the office adds, depending on the success of several new technologies which have yet to be proven on a commercial scale.

Stationary uses of fuel oil, the OTA report to Congress concludes, could drop to 2.6-million b/d by 1990, and, by 2000, 60% to 100% of that remaining consumption might be curtailed. Actual consumption will largely be determined by the willingness and ability of individuals and companies to switch to other fuels, conserve oil and adopt new technologies.

The congressional report examines the social and environmental impact of the dwindling dependence on foreign petroleum and the massive shift of investment capital to new technologies, but makes no mention of the effect of dwindling fuel consumption on the petroleum marketing industry. **N:N**

Two Indiana Firms Bank on $25 Shale Oil

In southeastern Indiana, far removed from the Colorado Rockies which have attracted the lion's share of attention through the years, two relatively small firms are taking a head-on shot at converting shale into oil.

Southern Indiana Shale Oil Co. and Midwest Energy Resources Co., both of Marysville, Ind., a little place in Clark County abutting the Kentucky state line, are building a demonstration plant on a five-acre site.

So hopeful are they that they've ordered a 10,000 b/d commercial-sized conversion unit, with plans to increase it to 50,000 b/d if all goes well. On the other hand, there's a clause in the purchase contract that says the commercial plant can be cancelled if the demonstration plant fails to make the grade.

U.S. Shale Oil of Warminster, Pa., has been chosen to supply the equipment and process necessary for construction of both the demo and commercial plants.

No one is saying much out loud about the dollar investment or the goal of the two companies. But Indiana state sources have been quoted as saying the target is $25-bbl. shale oil, which is significantly below the going price of U.S. and foreign crude oil in the $30 and up range.

State officials estimate that shale reserves in Indiana are roughly equivalent to 40-billion bbl. of crude oil. The two companies also hold title to extensive acreage in Pennsylvania.

Exxon and Tosco recently abandoned a multi-million-dollar project in Colorado because of rising costs and unfavorable economic and supply conditions. Despite this, the Indiana project is proceeding with a projected April 1983 start-up date.

What's Next?

Just about all of the white-knuckle things that happened to oil marketers in 1982, particularly to jobbers, are in for repeat performances in 1983—with the additional proviso that the going will be even tougher in the first half of the new year.

There are a few bright spots, of course, including the projections that economic activity will continue its fourth-quarter pickup and show moderate growth of 3% in 1983.

Overall, however, there's no real relief in sight for oil jobbers who have been buffeted all over the lot in the year just coming to a close.

Times Are Tough

Here's a bird's eye view of 1983 vis-á-vis 1982:

- **Supply:** More than enough, with refineries coasting along at a 70% utilization rate and enormous quantities of crude oil available the world over.
- **Demand:** No better than in the current year, with gasoline expected to dip another 57,000 b/d in 1983. Distillates will be up somewhat but space-heating won't be the beneficiary—the increases will be in industrial fuels and diesel for transportation.
- **Pricing:** Competition for gallonage will be fierce and get worse at all levels, with the consumption pie shrinking again for the fourth consecutive year.
- **Credit Cards:** Just about as wild as anyone can imagine as majors and independents fight to counter each others' moves and recoup lost volumes and market share. Perhaps more card eliminations, more surcharges, more discount-for-cash schemes and more "we'll take anybody's card" competition [see related story on page 28].
- **Margins:** With supply up, prices down, what else can margins do but suffer continued malnutrition? Supplier competition for both retail and wholesale markets now handled by jobbers also is going to impact heavily in this area.
- **Capital Spending:** Off substantially from the multi-billion-dollar programs of recent years as profits continue to erode in most major areas.
- **Divorcement/Divestiture:** Although there will be much clamor in Washington for legislative relief, there won't be much direct action. The areas to watch will be the states—where all kinds of divorcement/divestiture bills will be considered in 1983. Marketers, especially retailers, have heavy clout in the state legislatures, so anything can happen. Jobbers aren't home free, either, because retailers want them out of their arena and are pressing hard to achieve just that.
- **Jobber/Supplier Relations:** Expected to worsen in '83 as pressures and competition drive more distributors against the wall and resentment grows by leaps and bounds.
- **Population Trends:** More buyouts and mergers by jobbers in 1983 as those in the fringe areas throw in the towel. Similarly, another decline in the number of service stations, especially those in the 30,000 to 40,000 gal. a month area. New year-end total: under 150,000. Watch for big takeover thrusts, too, à la Conoco, Marathon and Cities Service. The toe-stubbing by Mobil and Gulf and the quiet acquisition of Citgo by Occidental Petroleum lay the ground rules.

Intense Street Fighting

The ferocious price competition that characterized oil marketing in 1982 is likely to extend well into 1983, market experts believe. Oil jobbers, especially, may continue to wonder if their class of trade hasn't become an "endangered species."

The underlying causes of weak prices and profit margins in 1982 will carry over into 1983.

Overall demand for gasoline, the industry's big-ticket item, continues to decline. It was off 3.2% in late 1982 as compared to 1981 and has been dropping constantly since 1979. This has set off a mad scramble for sales as everybody—both majors and distributors—fights for a share of the shrinking pie.

The fierce street competition has had a devastating impact on prices and margins so far, and the experts see no easing of the situation in the coming year.

Gasoline pump prices fell about 21¢ gal. on an inflation-adjusted basis, or 16%, from March 1981 to September 1982, according to the American Petroleum Institute.

Gasoline jobbers generally say that, on the average, their margins have plummeted at an even greater rate. Some with dealer-type operations recently said their margins were in the range of 1.12¢ to 1.25¢ gal. as compared to 4.25¢ to 5¢ gal. in the late 1970s.

Private-brand independents and other large chain retailers were reporting similarly tough situations at the same time. One such marketer in Denver said he had a "composite" (or average for three grades) rack-to-retail margin of just 1.5¢ gal. for one period late this year. Others reported they were lucky if they could get 5¢ or 6¢ gal. over rack costs for leaded regular

Many branded jobbers say they saw a pattern developing in the last half of 1982 in which some suppliers have reduced wholesale prices to their dealers without corresponding reductions to jobbers. The net effect is reduction in jobber margins or "functional discounts."

Jobbers began fighting such supplier actions by threatening to call for government investigations and to support legislative divorcement or divestiture.

Communications were improving between suppliers and jobbers over these issues late in the year. But the fierce competition for market share will likely continue putting pressure on both prices and margins.

Increasingly, there is private talk in some circles that jobbers and dealers eventually will wind up buying product at the same price in metropolitan markets. Jobbers, in fact, have complained that company-supplied dealers were given lower retail prices than the jobbers could buy for at wholesale.

It is doubtful that one-tier wholesale pricing will develop in 1983 because rarely does the industry move so rapidly toward such revolutionary change. Some observers believe that a trend of this kind is developing, however, and they say a continuation of 1982's chaotic marketplace conditions could bring it more into focus in the coming year.

Market observers say the profit-margin outlook for other primary petroleum products may not be much better than it is for gasoline.

With the general economy sick and showing only scattered signs of recovery, marketers find such customers as farmers and small commercial accounts searching for the lowest fuel prices they can find. This has put pressure on diesel fuel and lubricant prices. Suppliers of other products such as jet fuel and middle distillates find customers to be "bargain conscious," too.

Meanwhile, the industry is sitting with about 5-million b/d of surplus refinery capacity at year's end and crude oil inventories are around 50-million bbl. over minimum requirements. Unless a major disruption of foreign imports were to occur, refiners would likely move quickly to supply any slight spurt in consumption.

In view of the general economic outlook and overall supply/demand conditions, most experts have little reason to expect much improvement in product prices or margins over the coming year.

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1983 Supply/Demand

Independent Petroleum Assn. of America (IPAA), whose fall forecast is usually well on target, concurs in the general feeling that things in 1983 aren't going to be much different from the way they were in the year just ending.

Total demand, including exports, will be off ever so slightly. Domestic demand will be up a miniscule 0.5%—roughly 77,000 b/d. Industrial fuel and diesel fuel will account for most of that. Gasoline will be down again—for the fourth consecutive year—by 51,000 b/d, or 0.8%.

Supply in 1983 will be up slightly, about 2.1% or 331,000 b/d. Imports will account for most of the increase because domestic production of crude oil and natural gas liquids will be fairly well balanced with less than a 1% change.

Inventories at the end of 1983 are expected to be about the same as they are at the end of 1982.

Crude runs will be about 250,000 b/d in 1983, but with fewer refineries doing the processing the utilization rate may improve somewhat. Crude runs are expected to average 12,247,000 b/d next year.

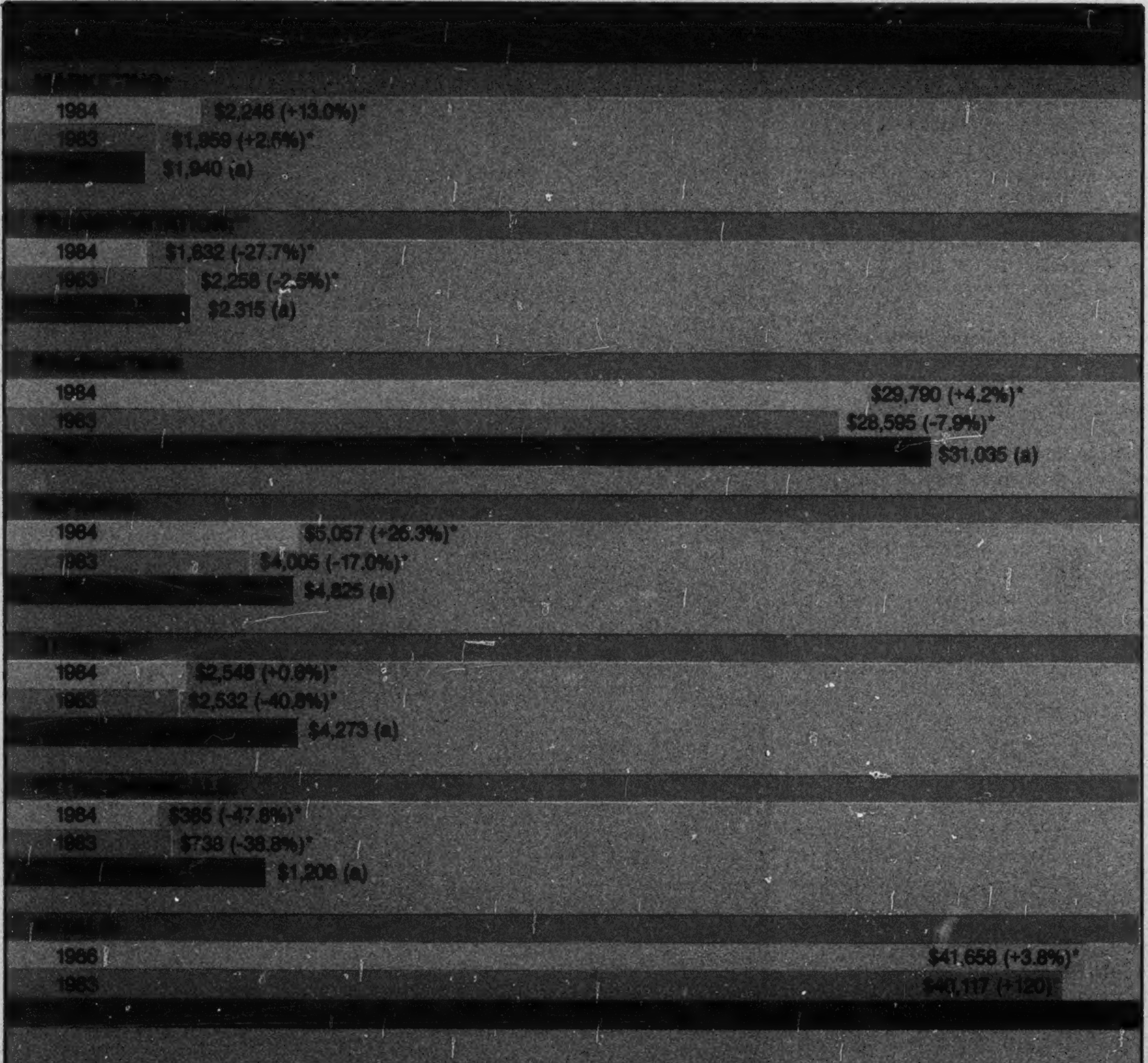
Here's the way IPAA spells it out:

"Domestic demand is expected to reverse its downward trend of the past four years and average 15.5-million b/d in 1983, a modest increase of approximately 77,000 b/d from an estimated 15.4-million b/d in 1982. Renewed growth in industrial demand for oil products as the economy improves, coupled with gains in oil demand in the transportation sector, are expected to account for most of the forecast growth.

"Motor gasoline consumption is forecast to decline 51,000 b/d in 1983 to average 6.50-million b/d, following a drop of about 30,000 b/d in 1982. Continued growth in the number of miles driven and in the vehicle population is expected to be slightly offset by further improvements in fuel efficiency.

"Aviation fuel consumption is projected to increase approximately 1% to average 1.04-million b/d in 1983 following an estimated decline of 0.7% this year. Improvement in the economic climate will lead to increased passenger miles flown, with potential increases being partially mitigated by improved fuel efficiency.

"Middle distillates are expected to show a 2.0% growth to average 2.93-million b/d in 1983, up 56,000 b/d following an estimated 87,000 b/d decline in 1982. This will reverse the drop of nearly 600,000 b/d from the 1978 level of 3.44-



*Figures in parentheses indicate percentage of change from previous year's total. **Includes only oil pipelines, not gas. ***Includes coal mining. (a) Comparisons with prior years cannot be made inasmuch as the projection bases from 1981 on were changed materially and cannot be related

Source: McGraw-Hill Economics Department, Nov. 1982.

million b/d, due to natural gas substitution, conservation, and the recessionary trend of the last two years. Growth in the demand of distillate for transportation and industrial fuel use will offset a slight decline in residential heating oil consumption.

"Residual fuel oil consumption is projected to decline 42,000 b/d to average 1.78-million b/d in 1983. This moderate decline follows a drop of over 265,000 b/d in 1982. Most of this decline will be the result of increased penetration of coal, nuclear and hydroelectric power in the electric utility sector.

"Demand for liquefied petroleum gases is expected to show an increase of 0.7% in 1983, following a 1.3% increase in 1982. Other products are expected to increase 4.1% in 1983 following a 13.4% decline in 1982."

Capital Spending

The fuzz really came off the peach in 1982 as the nation's oil companies responded to sharply reduced profits with heavy cuts in their capital spending programs and projections for 1983-84.

McGraw-Hill's annual forecast, released only a few weeks ago, seemed almost unbelievable when placed side-by-side with the optimistic report it issued in the fall of 1981.

Last year, for example, McGraw-Hill predicted oil's capital spending would hit $56.6-billion in 1982 and $61.2-billion in 1983. The new forecast downgrades the 1982 total to $45.6-billion; the 1983 total to $40.1-billion; and the 1984 outlook to $41.7-billion.

Exploration, production and refining bore the brunt of the 1982-84 cutbacks vis-à-vis the projection of last fall.

The continuing surplus of crude oil and products discouraged drilling programs of the major companies at home and abroad. Similarly, with refineries bumping along at a 70% operating level and many being mothballed for that reason, the industry obviously had less appetite for major expenditures in this area.

Marketing, despite the slowdowns, seems to be faring reasonably well.

Last year's projection indicated that the industry would spend about $2.4-billion on marketing projects in 1982 and $2.6-billion in 1983. The new forecast calls for $1.9-billion in 1982; $2.0-billion in 1983, and $2.2-billion in 1984.

Most of this funding probably will go into the upgrading and modernization of service stations as well as expansion of self-serve pumper and convenience store facilities.

The projected marketing investments represent a 2.5% increase in 1983 over 1982, and a 13.0% increase in 1984 over 1983. The $2.2-billion that oil has earmarked for 1984 is a near record for any one year. The previous actual high was 1981 when marketing investments totaled $2.1-billion.

If the economy improves through 1983, it may be that McGraw-Hill's next fall forecast will be on the sunny side again. As with the year coming to a close, however, much will depend on oil company earnings in 1983.

Washington Scene

Much of what happens in Washington for the next year—or even two years—will depend largely on the shape of the new Congress and the condition of the economy early in the year. There are many "ifs" involved.

If the 98th Congress, for example, is "pro-Reagan," the White House will be able to press ahead with its legislative agenda, giving lawmakers time to take up some of the issues important to petroleum marketers. If the reverse happens, dogfights over administration proposals could tie Congress into knots and make passage of "low priority" measures almost impossible.

By the same logic, an upturn in the economy will benefit everyone with legislation in the congressional hoppers;

U.S. Petroleum Supply and Demand Forecast—1983

(000 b/d, except closing stocks)

	1st Q	2nd Q	3rd Q	4th Q	Est.1983	Est.1982	% Chng.
Domestic Product Demand:							
Motor Gasoline	6,165	6,660	6,681	6,491	6,500	6,551	– 0.8%
Aviation Fuels	1,045	1,030	1,063	1,029	1,042	1,031	+ 1.0
Middle Distillates	3,409	2,708	2,435	3,154	2,925	2,869	+ 2.0
Residual Fuel Oil	2,027	1,618	1,650	1,826	1,780	1,822	– 2.3
Liquified Gases	1,691	1,381	1,305	1,605	1,495	1,485	+ 0.7
Other Products	1,533	1,784	1,908	1,734	1,740	1,647	+ 4.1
Total	15,870	15,181	15,042	15,839	15,482	15,405	+ 0.5
Exports:	685	665	635	640	656	746	–12.1
Total Demand:	16,555	15,846	15,677	16,479	16,138	16,151	– 0.1
Total Supply							
Domestic Production:							
Crude Oil	8,550	8,550	8,550	8,550	8,550	8,633	– 1.0
Natural Gas Liquids	1,542	1,523	1,524	1,541	1,532	1,544	– 0.8
Total	10,092	10,073	10,074	10,091	10,082	10,177	– 0.9
Required Imports:							
Crude Oil	3,686	3,659	4,016	3,962	3,832	3,470	+10.4
Motor Gasoline	168	186	192	174	180	194	– 7.2
Aviation Fuels	36	31	36	37	35	31	+12.9
Middle Distillates	152	115	129	156	138	112	+23.2
Residual Fuel Oil	860	685	739	814	774	769	– 0.7
Liquified Gases	289	227	219	268	251	228	+10.1
Other Products	168	211	199	190	192	196	– 2.0
Total	5,359	5,114	5,530	5,601	5,402	5,000	+ 8.0
Other Supply	697	678	648	680	677	653	+ 3.4
Total Supply:	16,148	15,865	16,252	16,372	16,161	15,830	+ 2.1
Closing Stocks (000,000 bbl.):							
Motor Gasoline	239.4	223.7	222.5	231.0	231.0	227.4	+ 1.6
Aviation Fuels	40.8	41.2	40.2	40.7	40.7	39.4	+ 3.3
Middle Distillates	127.1	135.4	176.0	163.8	163.8	171.2	– 4.3
Residual Fuel Oil	52.7	57.1	64.0	65.5	65.5	56.8	+15.3
Liquified Gases	100.8	110.5	129.3	120.7	120.7	115.4	+ 4.6
Other Products	59.2	59.3	53.6	55.5	55.5	53.2	+ 4.3
Total Products	620.0	627.2	685.6	677.2	677.2	663.4	+ 2.1
Unfinished Oils	118.6	120.2	119.6	118.4	118.4	116.4	+ 1.7
Natural Gas Liquids	14.6	13.5	13.8	13.7	13.7	14.5	– 5.5
Crude Oil	346.5	340.6	335.5	335.4	335.4	341.9	– 1.9
Total All Oils:	1,099.7	1,101.5	1,154.5	1,144.7	1,144.7	1,136.2	+ 0.7
Crude Runs to Stills:	12,023	12,136	12,442	12,373	12,247	11,975	+ 2.3

Source: Independent Petroleum Assn. of America, October 1982.

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existing problems—such as continued double-digit unemployment—will keep lawmakers' attention focused away from petroleum marketing on the whole.

Still, there are some issues which will get attention in the nation's capital, regardless of other events.

First and foremost will be the fallout from the hearings scheduled this month by Rep. Berkley Bedell. Aides to Bedell say that, at least for now, there is no plan to follow the hearings with legislation, but the possibility for legislation next year hasn't been ruled out. Much will depend on the picture of the petroleum marketplace developed in the sessions.

The same sentiments seem to prevail among the groups testifying at the hearings. The strategy seems to be to point out the problems in the marketplace without suggesting specific remedies.

Still, two topics sure to be covered are retail divorcement and crude oil divestiture. Neither looks like it has enough support now to make a serious run at passage.

Natural gas decontrol is sure to surface again. While predictions about gas decontrol are risky, it's safe to say that any move to speed up price decontrol on natural gas will run into stiff opposition and lead to a monumental battle.

Whether or not gas decontrol is placed before Congress may depend entirely on the White House, which reportedly has a decontrol bill drafted and ready to go almost any time. If the White House decides to pursue decontrol, it probably will do so very early in the year—as far from the 1984 elections as possible.

Another sure bet is that Congress will be looking for new revenues next year, and the gasoline excise tax will be an inviting target. There is virtually no chance the tax will escape an increase as it did in 1982, according to both lawmakers and industry experts.

Like the gas decontrol proposal, this one will be unpalatable to the White House and so will come early in the next congressional session in hopes voters will have short memories in 1984. Also in jeopardy is the tax exemption now enjoyed by alcohol fuels.

Other legislation sure to put in an appearance next year includes the so-called anti-merger bill, and legislation banning credit card surcharges or processing fees. The anti-merger bill faces tough sledding, largely because the Federal Trade Commission has steadfastly refused to endorse it and, like divorcement, it's highly unlikely President Reagan would sign such a bill even if Congress can pass it.

Credit card surcharges are another matter. As the flash point for a whole range of dealer and jobber complaints about refiner marketing practices, the surcharges could be the hottest petroleum market topic in Congress next year.

A coalition of marketing groups already has taken complaints about the surcharges to the Federal Trade Commission, which conceded—at least according to some sources—that there may be an antitrust case to be made, but advised the marketers to take refiners to court themselves. That's an unlikely course because of the expense involved, but legislation in 1983 is a real possibility.

Outside of Congress, expectations are modest at best. The Energy Department probably will create the biggest stir early in the year when it finally unveils its plan for distributing the multi-million-dollar settlement between the government and Amoco Oil. The Amoco distribution probably will set the pattern for future distributions—and 1983 undoubtedly will see some more of them. Rayburn Hanzlik, the DOE official charged with winding down efforts to recover over-charges arising out of price controls, was unable to complete his work as promised last September, but should finish next year.

After that, it may well be time for DOE itself to fade from the picture. Political considerations prevented the White House from carrying out its plans to abolish DOE in 1982, but the effort could pick up steam next year. If the effort fails, there may still be an Energy Department on paper, but not in fact. Much of DOE's clout in the petroleum marketplace expired with price and allocation controls. When the Economic Regulatory Administration goes out of business next year, little will be left of the DOE bureaucracy.

Divorcement

Early this month, it figures to be divorcement time in Washington once again. Rep. Berkley Bedell (D-Iowa) has scheduled a round of hearings that has been billed as the first thorough look at the petroleum marketplace since decontrol.

Given Bedell's previous sponsorship of retail divorcement legislation and current marketplace conditions, some mention of divorcement probably is inevitable. Whatever happens during the hearings, the reappearance of federal divorcement legislation is likely in 1983. It's also likely that retail divorcement will have more support next year than it has ever enjoyed before.

There is little doubt that small gasoline retailers would like to see divorcement on a national scale. Vic Rasheed, who now heads the Service Station Dealers of

API: Is U.S. Headed for More Trouble?

Is the current surfeit of crude oil and products lulling the American public into old habits and customs which again could lead to the shortage problems of the past?

This and a series of related questions are raised by the American Petroleum Institute (API) in a scholarly review that looks into the past, present and future of oil and gas supplies for the wings and wheels of tomorrow.

"The United States is continually confronted with energy policy choices that can alleviate or exacerbate longer-term energy problems," the 41-page report says.

"In the mid-1970s (and before), Americans adopted policies that did not work and subsequently paid the price. At the end of the '70s and the beginning of the '80s, we chose wisely and have seen the benefits of those wise choices.

"The question is what Americans will do now, in the face of the temporary easing of the energy strain.

"Present signs indicate that we may be slipping back to old ways and heading for trouble again . . . Further progress means applying the lessons we have learned about marketplace pricing, about conservation, about capital needs and about the potential of government lands—all of the ingredients that are required if America is going to become energy strong."

The API report is entitled, "Energy Security for the United States: Progress, Pitfalls and Potential," and is neatly printed in booklet format.

It makes the point that while some trends of recent years "continue to be favorable, other signs are disturbing."

"Millions of barrels a day of domestic energy production are being forfeited as a result of some public choices of the past. It is not too late to reclaim these resources. Should we choose to do so, the amount of energy reclaimed would be more than enough to offset a future shortage comparable to past ones."

To improve the energy outlook, API calls for:

- Decontrol of natural gas, noting that decontrol of crude oil already has aided the U.S. energy situation significantly.
- More leasing of federal lands, onshore and offshore, to make vast resources available for development; coupled with reforms in environmental and clean air laws.
- A better understanding of the impact of tax laws on petroleum exploration and production and how windfall tax legislation actually curtails oil's ability to operate.

API suggests that as much as 3.5-million b/d of oil could be made available to the nation if these points were addressed and resolved.

Copies of the report may be obtained from API in Washington.

America, was an ardent supporter of divorcement in Maryland as head of a regional dealers organization and helped push that state's divorcement law through the legislature.

But unlike previous years, 1983 may see considerable support among jobbers for divorcement. The Texas Oil Marketers Assn. membership has indicated as much in a statement released a few months ago, and other jobber groups are showing signs of support as well.

Chances that divorcement legislation will get through Congress remain slim, however.

One reason for the pessimistic outlook is the lack of support from either of the key antitrust enforcers in Washington. The Justice Department has kept its distance from any examination of major oil company marketing practices and the Federal Trade Commission has issued a report saying it can find no basis for dealer claims that the majors are engaging in anti-competitive marketing practices.

A second reason is the power and financial resources the major oil companies can employ in a legislative battle. Even the staunchest supporters of divorcement concede that it will be an uphill battle at best with the major refiners arrayed against them.

And, should divorcement proponents overcome the congressional obstacles, there's one more hurdle to be faced. In the words of one lobbyist: "Somehow I just can't picture Ronald Reagan signing a divorcement bill. A simple majority in Congress won't be enough. It would take two-thirds of both houses to override a veto, and I'm sure divorcement would be vetoed."

Equipment Outlook

Recent trade shows could lead one to think chicken fryers and soda jerks will dominate petroleum equipment sales next year. And, they'll be present, for sure.

Two trends in petroleum marketing, however, will continue to affect equipment sales in the near future. Foremost is the convergence of gasoline and food retailing. Then, there is the adaptation of meters and registers to myriad retail pricing and funds transfer innovations.

The combination cash register/self-serve console might be a big seller among oil marketers next year. Several of the consoles now on the market reflect the cash and credit-card pricing schemes that grew up around the country over the past year.

Dual pricing, however, could be a passing phase that leads to debit card marketing, many experts are saying. Several equipment makers already market products designed for this in-between stage, with which consumers can use cash or credit card, or credit or debit card.

"Maybe down the road, what the majors really have in mind is changing over to debit cards," says Tom Cordell of the Michigan Petroleum Assn.

The debit card, in fact, already has arrived. One central Illinois marketer has seen a 20% growth in sales since last spring when he connected card acceptors at two stations to four local banks.

"The undercurrent feeling is that banks are getting ready to break loose with pumps tied to computers," says Howard Upton, executive vice president of the Petroleum Equipment Institute (PEI). "And, this will become a self-fulfilling prophecy."

"Gascard Club," a franchise of card-lock operators, also is moving in the direction of debit card marketing, its executives in California say. Gascard already has combined another feature with its modern marketing that is quickly gaining ground: instant credit authorization.

Gascard recently completed an agreement with a local bank which, in effect, permits instant credit authorization for Visa and MasterCard purchases.

The cost efficiencies are there. American Telephone and Telegraph is selling its "PRS 2000" system after a year of testing at 30 Chevron stations in California. Tests showed the card-terminal/phone-line system shaved 20% off credit-card transaction costs and cut the billing time by 10 days.

Vapor recovery nozzles at dispenser islands may become more common in 1983. While the federal Environmental Protection Agency has extended beyond this year many states' deadlines for compliance with ozone-cleansing measures, some 20 state legislatures might pass their own more stringent laws next year. Mostly concerning Northeast states, pending bills could force the typical station operator to pay at least $20,000 per station to retrofit his pumps.

In addition, thousands of tanks that went into the ground during the wild-and-woolly 1960s are reaching their design life. That fact is painfully apparent to any marketer who has been socked with a damage suit arising from tank leaks. Some equipment experts believe leak detection equipment—and even tank replacement—will pick up next year.

Says PEI's Upton: "There is a genuine apprehension about the liability if gasoline is found in the local water system."

TBA Outlook

There were signs in the year just ending that oil marketers—those who stayed involved in the automotive aftermarket—were prepared to knuckle it out with the lowballing merchandisers of tires, batteries and accessories. Gasoline margins of 2% to 3%, often less, left few options for remaining profitable.

If 1983 bears out the trend, oil-channel TBA marketers will be competing on terms they only reluctantly accepted previously: price and promotion.

Gross profit margins in TBA have shrunk from the average 25% to 35% customary in years past (as high as 40% and 50% in some cases) to around 20% today, many marketers report. For some, the margin shrink has been voluntary—as a means of boosting volume; for others, it has been an unhappy consequence of the market share struggle sparked years ago with the emergence of mass merchandisers and auto repair specialists in the aftermarket.

Largely as a result of this "price and promo" oriented competition, eight major oil companies in just the past two years have dropped their TBA programs. Among them, Getty and Mobil eliminated their lines in 1981; then it was Conoco last May. At the end of this month, Champlin Petroleum intends to abandon its program.

All jumped ship for similar reasons: Their commercial customers had gotten out of the business or were patronizing more efficient and competitively priced suppliers, and the justification for tying up capital in TBA was no longer tenable.

However, the fallout in TBA has left those who remain—and those with the wherewithal to stock and supply TBA on a volume basis—in a potentially enviable position. Volume has become the key, according to many sources—four or more turns in inventory per year and the flexibility to "go after anything that moves."

"There is a great potential for TBA sales, but it may not be actual demand," said one multi-branded jobber recently. "It's really up to the jobbers and dealers to push TBA on the driveways. They have to advertise things like free safety inspections and offer things like wiper blades to generate the business."

"As the big oil companies slow down on TBA," says a volume-conscious New England jobber, "we're picking up on that stuff." A Florida marketer this year made the unusual oil jobber claim that his dealers are now able to "match or beat" competing mass merchants on tire prices, sometimes underselling the discounters by as much as $15 a tire.

Such marketers apparently have adjusted to competitive pressures and aftermarket economics which for years had squeezed others out of the marketplace.

It may be that the oil-channel TBA establishment—part of a total aftermarket which may have grown to $60-billion in revenues this year—has retrenched and regrouped to a position where market points lost since the 1973 oil embargo are finally coming home. A decade later, oil's TBA survivors show signs of being more aggressive, flexible and volume-hungry than their pre-embargo counterparts.

January, 1983 $4.00

Can You Profit on Big Kerosine Comeback?

Why 'Scotty' MacLeod Still Bets on Jobbers

Congress Ponders Charges of Market 'Abuses'

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Why Majors Are Shuffling Strategies

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NATIONAL PETROLEUM NEWS

JANUARY 1983 VOL. 75 NO. 1

20 Regional News

20 South
Jobbers being offered rural stations as Gulf concentrates on city markets

21 East Coast
Idled in 1982, Penn. divorcement bill could resurface in the new legislature

22 West Coast
Future gasoline profits depend on use of traffic, marketer believes

23 Rockies
Amoco debrands in Utah to 'help jobbers become more competitive,' says company

24 Midwest
Region keeps ethanol bandwagon rolling

26 General News

26 Bedell subcommittee ponders remedies for marketplace 'abuses' arising from decontrol
27 Nickel tax hike will pinch small marketer cash flow most
28 Too many taxes, say majors
29 Court rules 'windfall' tax unconstitutional; U.S. expected to appeal
29 Quality and quantity troubles pile up for diesel in the 1980s
30 Cardlock systems, on-line networks emerge
31 Exxon may pull out of New York entirely
31 More crude coming—offshore California finds may be the biggest since Alaska
31 Secretary Donald Hodel: Low profile for DOE
32 Alternate fuels need 'prudent nurturing' to meet expected supply gap: GM Research
33 Convenience store sales of gasoline rose 16% in 1982
33 Jobber 'Texaco monopoly' suit dismissed in California
33 Reagan explains his authority for handling an oil shortage
33 Forecasters change their tune on winter chill prospects

36 Features

36 Cover Report
Decontrol two years later: Why majors are shuffling strategies

41 Kerosine
Heater kerosine a bright prospect . . . if the product specs are right

44 Fuel Oil
NOFI-like heating oil campaign will take grass-roots course

46 Management
Ex-broker plans profit as jobber

48 Station Design
Kerr-McGee strategy channels funds into forced-exit design in cities

61 Legal—Sam Borenkind
Customer lists can be depreciation assets

62 Tax—Irving Blackman
Tax strategy if economic climate changes

Departments

63 About Oil People
9 Ahead of the News
11 Catching Up
66 Classified
60 Coming Meetings
10 Late News
17 Letters & Comment
5 Looking Things Over
12 Marketplace
49 O & E Briefs
52 Product Briefs
12 Trends

CASH DISCOUNT
CREDIT TERMS
FR

This is expected to be a crucial year for oil marketers. Dramatic changes set loose with the end of federal controls two years ago are coming to a head, while a record-breaking drop in oil consumption continues. There are bright spots. Experts believe innovative, efficient marketers are making profits now and stand to make even more. Page 36.

Cover photo: John Apolinski, Chicago.

Kerosene
TOTAL SALE
GALLONS
Super 1K

No oil jobber would confuse kerosine with other fuels, as have some unfortunate owners of kerosine heaters. The jobber notes that kero is the fuel with the frantic growth market where supply can hardly keep pace with demand. Page 41.

With jobbers and dealers warning that refiner 'abuses' are driving them out of business, and refiners blaming shrinking gasoline demand and economic recession, the House Small Business Subcommittee on Energy now faces a tough decision: whether—and what kind of—legislation is needed to set things right again. Page 26.

• LATE NEWS

Deeper Price Cutting Yet On World/Domestic Levels?

With foreign producers locked in a struggle for the free world's shrinking oil market, gasoline marketers in the U.S. are beginning to get lower wholesale prices in their own battle over a smaller domestic pie.

The Organization of Petroleum Exporting Countries (OPEC) began meeting Dec. 19 to plan their 1983 production and pricing strategies amid some speculation that world oil prices could "collapse."

While analysts of the overall situation generally doubt that OPEC members will allow their cartel to become ineffective, the Research Group on Petroleum Exporters' Policy stated prior to the OPEC meeting that a "price war may break out" if the group failed to iron out problems internally and with non-OPEC producing nations.

The research group, which is close to OPEC, estimates that free-world demand for oil in 1983 will be about 45-million b/d. It figures OPEC's share of this market will be 18- to 19-million b/d, about the same as 1982 but down sharply from OPEC production of 31-million b/d in 1979.

OPEC has had problems for months in getting all member countries to follow the group's guidelines. The average weighted price for OPEC oil would be $34.10 bbl. if all did. However, the actual price in December was $32.80 bbl. and non-OPEC members were selling far below this level.

Domestic crude oil prices have been dropping in the face of the weak overseas' market. Several majors cut their postings $1 to a range of $31 to $32 bbl. recently.

Some of these reductions in crude oil prices have been finding their way to products at wholesale terminals and racks. Some independent gasoline marketers said they were getting "a little breathing room" recently as unbranded product prices tumbled faster than major brand postings. However, most marketers said they expected the two types of product prices to draw back closer together.

The big question in mid-December had to do with the crude oil market and prices. If there should be further reductions in world crude markets, then lower U.S. pump prices are likely to follow.

Arco Gains Are Greatest in Two Market-Share Surveys

Amoco retained its position as the nation's No. 1 marketer through the first eight months of 1982, according to *Lundberg Survey* data, while the price-and-card-war days of early autumn saw Arco gaining ground fast on seventh-ranked Chevron, its West Coast rival.

Another study of the same January-August period, this one a consumer survey, showed both Arco and Shell making 20-league strides in market shares.

By the end of August, shows Lundberg, Amoco had increased its year-end 1981 market share 0.11% to 7.42% of the 100-billion-gal. gasoline market [see table]. Shell clung to second place in the Lundberg ranking, with a 6.71% share or 0.21% lower than its 1981 showing.

Arco's 0.65% market-share jump was the largest for any of the top 11 oil companies during the period. Its 4.49% ranking last August closed the gap between Arco and Chevron to 0.28%. Until 1982, the perennially eighth-ranked Arco has lagged at least a full 1% behind Chevron. The latter company, however, suffered the biggest drop, −0.42%, of the top 11 of companies in Lundberg's eight-month status report.

Another study that tracks consumer purchases, however, shows wide gains for Arco and Shell on branded retail sales. (The *Lundberg Survey* reflects best estimates for major companies' branded and unbranded sales, based on state tax records and company-supplied data.)

According to NPD Research, Inc., of New York, Arco moved into the number three slot in branded retail sales through last August with a 7.2% share of market. Arco's market share for the month of September (one month only) was 7.8%, says NPD. The results put it ahead of Exxon's 7.5% share, and behind Shell's 8.4% share.

Shell gained NPD's top position in September, the same time it launched its "honor all" credit card program as a challenge to Arco's no-card policy and the discount-for-cash tactics of others. This 8.4% September market share represented a 0.8% rise over the August figure, and a 0.9% increase over September 1981.

Arco's year-to-year gain in NPD's September standings, however, was stunning if real—from 4.9% in September 1981 to a 7.8% share of branded retail sales in September 1982, according to NPD.

NPD's data tracks monthly gasoline purchases made for 7,000 vehicles owned by 6,000 families across the country. The firm did not compile year-end 1981 market-share figures, nor would it release data for other oil companies.

Gasoline Market Share Ranks

	1982*	1981		1980	
	% Share	Rank	% Share	Rank	% Share
Amoco	7.42	1	7.31	3	7.40
Shell	6.71	2	6.92	2	7.44
Exxon	6.61	3	6.80	1	7.54
Gulf	5.81	(4)	5.70	7	5.39
Texaco	5.65	(4)	5.70	5	5.95
Mobil	5.54	6	5.33	4	6.01
Chevron	4.77	7	5.19	6	5.77
Arco	4.49	8	3.84	8	3.87
Union	3.23	9	3.33	9	3.50
Phillips	2.82	10	2.90	10	2.83
Sun	2.69	11	2.53	11	2.74

Source: Lundberg Survey. *Column shows 8-month data only.

New Reserve Drawdown Plan

If foreign oil supplies are disrupted again, the government has the 288-million-bbl. Strategic Petroleum Reserve (SPR) to draw on. However, the way they'll draw on it is changing.

Submitted by President Reagan to Congress last month, a new SPR drawdown plan covers basically the same ground as the old (1979) plan, but reflects the current administration's commitment to decontrol and free competition, even in an energy emergency.

The new plan has no provisions for federal allocation of oil, specifies that petroleum held in the reserve will be sold at market prices to the highest bidder—whether the bidder be a foreign or domestic refiner—and limits the amount that can be allocated to one buyer or class of buyer.

• TRENDS

Jobber 'Margins' Will Not Be Clearly Defined from Here On

The traditional jobber margin or discount is becoming very thin or virtually non-existent in many large, tough metropolitan markets today. Some well-respected voices believe this trend may be the beginning of the end of the term "jobber margin" [see page 36].

The traditional jobber "functional discount" has been on shaky ground for some time now for various reasons. There are indications, though, that wide fluctuations in jobber product purchases over the past two years have convinced some suppliers that they need to concentrate more on company-controlled retail channels.

"This is what our company tells us," says a jobber of one major. "They say that when their wholesale prices have gotten a little out of line [too high] in the past two years, their jobber sales have dropped as much as 25% or 30%. During these same periods, their dealer losses haven't been more than 5% or 6%."

This jobber adds that his company's sales representatives say they can't put up with such wide swings in purchases. They have to project ahead of time how much product they are likely to sell and adjust their refinery runs accordingly.

Many jobbers say such talk is mostly nonsense, that they only desert a prime supplier when that supplier has a much higher price for product than the going wholesale market. Nevertheless, the recent trend by many jobbers to shop around for the lowest wholesale prices seems to be contributing to today's shrinking jobber margins.

Branded jobbers are, understandably, upset with this trend. Traditionally, they have purchased product at around 3.5¢ to 4.5¢ gal. below what refiners charged their lessee dealers.

The "functional discount" system for jobbers was established originally in recognition of the jobber's wholesale or middleman function. Theoretically, at least, he owned a string of service stations that he leased to independent dealers or retailers. He serviced these in addition to commercial and farm customers.

Company lessee dealers have been complaining for some time that while this may have been a good system in the past, it has broken down in recent years. They contend that many jobbers today operate their strings of stations with salaried personnel. The dealers say that if jobbers are going to compete with them at retail with such salaried operations, then the two should have equal wholesale buying prices.

Independent dealers who own or lease their stations from third parties have still another gripe about today's wholesale pricing policies. They say company lessee dealers get a break over them, too. "A company dealer who leases his station from the company is getting a net buying price well below posted dealer tankwagon," Bill Ligon, head of a Texas retail trade group, said recently. "The companies tell other dealers that if they don't like it, they can go elsewhere."

Ligon has long supported rack pricing for both jobbers and dealers. He believes that neither the jobber nor dealer should have any product cost advantage "coming out of the [refinery] gate."

He believes, also, there should be a single rack price today and that refiners should be forced to use it as the transfer price to their company stations. Ligon believes such a system would quickly spotlight any subsidization of retail operations.

While such debates continue, refiners in some of their statements to jobber customers seem to be backing away from supporting the traditional jobber margin or functional discount.

Exxon says its position today is that "distributor buying prices are primarily influenced by rack prices." A policy paper adds that "there is no fixed relationship between the DTT [dealer transport truck price] and the DBP [distributor buying price], though they are related in terms of having an effect upon one another in the marketplace. Exxon does not guarantee a specific differential between the two prices but sets its DBP and DTT prices in response to competitive conditions."

Some companies seem to be saying that they intend to remain competitive with other suppliers on product they move through the wholesale channel. As for product they move through the retail channel, they will be competitive with other retail competition.

This seems to indicate that, while jobbers can continue to expect some kind of margin between what they buy and sell product for, it may not be as clearly spelled out as in the past.

—**Marvin Reid**

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

OCTOBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Leaded Premium
U.S. City Avg.	$1.280	$1.219	$1.295	$1.413
Regions:				
Northeast	1.296	1.238	1.298	NA
North Central	1.277	1.230	1.300	NA
South	1.258	1.195	1.273	NA
West	1.295	1.220	1.312	1.421

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	11/26/82	11/27/81
Gasoline (total)	230,113	244,097
Gasoline (unleaded*)	93,825	96,048
Kerosine **	44,929	46,678
Distillates	183,011	196,201
Residual	62,286	81,329

**Included in gasoline total.*

***Includes jet fuel.*

Source: American Petroleum Institute.

ing demand" as well as the current economic recession and the natural realignment brought about by decontrol. The intense competition fostered by these factors, the refiners agreed, have shrunk margins at all levels of marketing but have benefited consumers by lowering pump prices.

While jobbers and dealers were testifying, Arco and Texaco came in for the largest share of criticism. Arco vice president George Babikian and Texaco vice president Ellis Gunnels also were subjected to the toughest questioning from Rep. Bedell.

Babikian defended Arco marketing practices by saying that very low pump prices were necessary to meet competition. "We promised consumers when we eliminated our credit cards that our prices would be lower," Babikian testified. "If in a certain location, our competition lowered its prices, we were committed to cut ours more to keep that promise."

Texaco's Gunnels said price discrepancies mentioned by Texaco jobbers and dealers were not a result of predatory pricing, but could result from a combination of the company's sales incentives and the use of composite pricing by the contractors who operate Texaco's company-owned stations.

Texaco marketers had testified that some Texaco-owned stations in the Atlanta area were posting pump prices lower than the terminal price for wholesalers in the same area. Gunnels conceded that the company's incentives could provide a 3.5¢-gal. price reduction for dealers exceeding base sales from the year before, and by pricing premium fuel higher, they could post extremely low prices for other grades.

Questioning, particularly by Bedell, was pointed and at times even adversarial, making it clear that the panel chairman, at least, is ready to propose congressional action. But given the dim prospects for support from the Reagan administration, lobbyists for the independent marketers say an all-out push for federal divorcement legislation probably won't be successful even if the subcommittee decides to pursue it.

In that light, other legislative ideas probably will be the subject of behind-the-scenes discussions for the next few weeks and may be tried before divorcement surfaces again. These may include amendments to the PMPA and federal antitrust statutes, but almost certainly will involve increased pressure on the administration to beef-up existing antitrust enforcement activities. **—Tom Goldsmith**

Nickel Gasoline Tax Hike Goes to 'Lame-Duck' Wire

With many lawmakers already home trimming the tree, Congress and the White House struggled against Santa's deadline to wrap up a $5.5-billion "jobs" package tied to a 5¢ hike in the U.S. motor fuels tax. As *NPN* went to press, odds were favorable that one legislative version or another would pass.

The increase, raising the federal excise tax on retail sales to 9¢, would bring combined state and federal taxes to an average 19.11¢ gal.—and to a high of 23¢ gal. and more in some states, or as much as a gallon of gasoline often sold for less than two decades go.

Marketers and their Washington representatives generally resigned themselves to the "jobs tax," remaining adamant that the additional revenues be dedicated to road and transit projects but nothing else. They also were seeking certain "give backs" in the tax-hike legislation that would liberalize tax remittance schedules and, in one proposal, make service station robberies a federal crime.

The 5¢ federal hike, dismissed only months ago as unnecessary by the Reagan administration, took on the mantle of bipartisan support last month and suddenly became a steamroller in the post-election, lame-duck congressional session. The House-passed tax stalled in the Senate when three filibustering senators succeeded in tabling the measure over President Reagan's objections.

The measure was variously estimated to produce 300,000 to 400,000 jobs in the construction trades (an industry with a 23% unemployment rate) and $5.5-billon in additional revenues. It would earmark the money to trust funds that pay for highway construction and improvements and finance mass transit construction and operations [see table below]. The federal tax on motor fuel was last raised from 3¢ to 4¢ gal. in 1959.

The proposed 125% increase could affect oil marketers on several fronts:

- **Retail Sales.** Most sources do not believe the 5¢ hike will dramatically affect pump sales because product prices have been declining recently. Any significant impact of the nickel increase probably will not be felt until prices firm and renew their upward spiral.
- **Cash Flow and Security.** The federal tax hike, paid either by refiners or other "substantial wholesalers" qualifying under IRS rules, would pinch small jobbers and dealers most. For them, a 5¢ increase would require new cash outlays in the form of higher product prices. Marketers operating under refiner credit card surcharges (usually 3%) stood to lose more. Based on a gal. of gasoline priced at $1.25, a 5¢ increase would raise the effective surcharge rate from 3.75¢ gal. to 3.9¢ gal. on credit card sales.

Independent chain operators, jobbers and dealers all complain about their heightened role as "tax collection agents for the government." Most agree that the additional receipts will create a greater security burden at their retail outlets.

- **Border Wars.** While the additional 5¢ tax will apply to all marketers in the

Highway Trust Fund Sources

Excise Taxes	Fiscal 1982 Income (Add 000)	% of Revenues
Gasoline, 4¢/gal.	4,120,013	52.6
Diesel, 4¢/gal.	594,083	7.6
Trucks, Trailers, 10% price	724,564	9.3
All Tires, 9.75¢/lb.	625,895	8.0
Tubes, 10¢/lb.	22,552	0.3
Tread Rubber, 5¢/lb.	23,402	0.3
Heavy Truck Use, $3.00/1,000 lbs.	332,813	4.2
Truck Parts & Accessories, 8% price	224,176	2.9
Lubricating Oil, 6¢/gal.	76,181	1.0
Total from Taxes	6,743,679	86.2
Interest Earned	1,078,501	13.8
Total Receipts	7,822,180	100.0%

Source: Highway Users Federation

U.S. uniformly, it could have a disproportionate impact on those in border areas—where one state's gasoline taxes are relatively lower than adjacent states'; the higher federal tax load may induce greater crossover traffic to states with lower local taxes.

Examples: Maine's state gasoline tax rate is 9¢ gal., while bordering New Hampshire's is among the highest in the nation at 14¢ gal.; Illinois' 7.5¢ tax compares favorably to nearby Wisconsin's 13¢ state tax; Nevadans, with a 12¢-gal. state tax, may travel to California more often to purchase fuel, where the state levy is only 7¢ gal.

- **State Taxes.** The belief is that a 5¢ federal boost will preempt similar tax increases at the state level, where officials have been sensitized to the volume declines that higher gasoline prices ultimately net. Although state tax increases have been common recently, a 5¢-gal. federal hike will be a stiff one for motorists to absorb and the states are not expected to add to this burden over the short term.
- **The Gasohol Question.** A key concern for many marketers was whether the government planned to exempt alcohol-blended fuels from the nickel increase, as it has done under the current 4¢ federal tax. Influential farm-state Sen. Robert Dole (R-Kan.), chairman of the Senate Finance Committee, was pushing for an alcohol exemption from the 5¢ hike; administration and treasury officials, however, were cool to the idea. Extending the federal exemption could result in a heavy street advantage for marketers geared up to store, blend and sell alcohol-blended fuels through their facilities.

$9-Billon in Collections

Because motor fuel consumption will run a little better than 100-billon gal. in 1983, the overall tax could be expected to generate some $9-billon on an annual basis.

However, there was some confusion as to when the tax hike would take effect. Many sources believed that the effective date was to be April 1; others, including Transportation Secretary Drew Lewis, said the administration's plans called for the increase to become effective next August at the earliest. The start, Lewis said, could come as late as October, the beginning of fiscal 1984.

Oil marketing lobbies in Washington formally opposed the tax increase, but never had much confidence their position would prevail. As Kenneth Doyle, executive director of the Society of Independent Gasoline Marketers of America (SIGMA) said, "We're also very realistic and we felt that if such an increase did come to pass, there should be some sort of benefits in it for gasoline marketers.

"Afterall, there's a big increase in cash-flow requirements and in our security problems," he said. "The government should provide marketers with some sort of a collection allowance, make provision for shrinkage losses and extend the time that marketers have to pay the tax."

National Oil Jobbers Council executive vice president Phillip Chisholm agreed. "We have tax collector and pay-in-advance problems, too. It means that the cash flow of most jobbers is going to be stretched even more, at a time when they can ill-afford it."

Chisholm notes that under present requirements, jobbers are expected to remit estimated tax payments twice a month. He and others would like to see the government loosen the requirement to once-monthly payments because, as things stand now, marketers operating a chain of outlets often need more time to make accurate assessments of their tax liability. Consequently, they may pay too little and are later penalized, or they pay too much and lose the benefits of the cash, according to Chisholm.

Dealers were especially bitter about the tax-hike prospect.

"We've been forced to be tax collectors for federal and state governments right along whether we liked it or not," said Vic Rasheed, exective director of the Service Station Dealers of America. "The amount of money involved is pretty substantial. At 9¢ gal., that's $9,000 a month in tax collections for every station doing 100,000 gal. a month — and there are a lot of them out there.

"Retailers have to be protected and what we want is an amendment to make it a federal offense to rob a service station. We want it to be equivalent to robbing a post office, with a mandatory 25-year term to discourage such depredation."

Rasheed points out that dealers must prepay federal taxes when they receive tankwagon lots. "Every time a retailer gets an $8,000 drop, he has to cough up $720 in federal taxes immediately." If a station is robbed, the dealer is the loser, not the government, he said. "That's not a very fair way of doing things, is it?"

Whatever the ramifications of the 5¢ tax increase, the legislative proposal had not been finalized at presstime. And, it appeared it might undergo a series of revisions right up until the time it takes effect this spring or summer.

As SIGMA's Doyle expects, "We will probably have to go back to Congress this year to seek the 'give backs' we think are essential for gasoline marketers to be collecting these taxes."

Too Many Taxes, Say Majors

The 5¢ federal gasoline tax-hike initiative is just another example of "excessive and increasing taxation of the energy industry," according to the recent complaints of some major oil company executives.

Speaking before a Detroit business group in late November, Texaco chairman John K. McKinley characterized the proposed nickle increase as "inequitable and bad national policy." With the revenues dedicated to building and repairing highways and bridges, McKinley conceded that "an increase of 2¢ or 3¢ a gallon at most could perhaps be tolerated," but any higher levy would be harmful.

But more harmful than the so-called "user taxes" at the downstream end are direct production taxes that the industry complains are sapping necessary investment funds. Taxes at all levels of government are impinging on companies' exploration and production monies, and threaten the future supply outlook, the majors say.

Claiming that the oil business is the most heavily taxed industry in the U.S., McKinley said that the federal windfall profits tax had netted the government $45-billion from its inception in early 1980 through mid-1982. "This money for taxes is money lost to energy exploration and development," he said, adding that Texaco paid $620-million in windfall taxes through the first nine months of 1982—leaving the company with "only" $361-million in net U.S. earnings.

Amoco Oil is another company on the stump against government taxation policies and the "misnamed windfall profits tax." The tax, according to Amoco president Richard M. Morrow, "is actually an excise tax levied on oil company revenues, regardless of whether or not the company earned a profit."

"If, instead, this money could go for energy development, this year alone we would be able to drill about 20% more wells. These additional wells would help maintain our industry's pace of reserve replacement to assure future energy supplies."

Taxes, Morrow says, are beginning to "remove the incentive, and even the ability, of producers to produce."

Previously, Amoco chairman John E. Swearingen had complained to stockholders that "the impact of record high taxes was a major factor affecting our 1981 results."

"Our direct tax bill—not including product taxes collected from our customers—totaled $4.9-billion, or the equivalent of 16.4% of our worldwide sales and operating revenues, and 2.6 times our net earnings. . . .

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Alternate Fuels Need 'Prudent Nurturing' To Meet Expected Supply Gap: GM Research

Petroleum will remain the primary source of motor fuels worldwide over the next two decades, according to a 20-year scenario for energy availability and alternate fuels compiled by General Motors Research Laboratories (GMR).

But the report, titled "U.S. Automotive Fuels—1982 Shapes a New Outlook," also underscores the necessity for a well-planned alternate fuels industry. It points to the need for consistent government policies and private incentives to fill what could be a disruptive supply/demand gap expected to materialize around the turn of the century.

The assessment, authored by Nick E. Gallopoulos, assistant head of the GMR fuels and lubricants department, offers these projections:

- "U.S. petroleum imports will be high (over 30% of consumption), but probably will not return to the peak levels of the late 1970s (48% of consumption in 1977)."
- "The United States will remain vulnerable to supply interruptions but not to the extent that it was in the 1970s."
- "U.S. production of natural gas, on an equivalent energy basis, may be as much as 20% to 25% greater than that of petroleum, and the main sources of imported natural gas (Canada and Mexico) are more secure than those of petroleum."
- "U.S. petroleum prices will probably increase at a rate equal to or slightly higher than that of inflation, barring major disruptions in the Middle East, or a very strong OPEC cartel. Consequently, automotive fuels made from coal, oil shale or biomass will probably be unattractive for private investment in the U.S.—if investment policies are dominated by free-market forces."
- "Alternative fuels are expected to make only a modest contribution, less than 10% of liquid fuel consumption, to the U.S. energy supply by the year 2000 . . . [and] will require that the federal government adopt supportive policies."
- "The future of methanol looks relatively promising for the near-term future of alternative fuels. If emerging technology can cut production costs, and if methanol engines can be built that have 15% to 20% efficiency advantages over gasoline engines, then methanol vehicle costs to the consumer may be competitive with those of gasoline vehicles. Phasing the production of methanol and methanol-consuming vehicles, and implementing a methanol distribution network remain major hurdles, however."

U.S. Alternative Automotive Fuels

Fuel	Cost/BTU Relative To Gasoline	Potential	Major Obstacles
LPG or Natural Gas	Less Now, Most Advantage Lost With Decontrol	Limited (Specific Applications)	Availability, Distribution, On-Vehicle Storage
Ethanol (From Biomass)	2.8	Limited (Only as Gasoline Blending Agent)	Availability, Cost
Gasoline and Diesel Fuel (From Coal)	1.6	Limited in Near Future, Good Long-Term	Conversion Technology, Cost
Gasoline and Diesel Fuel (From Shale)	1.2	Good	Environmental and Social Impacts
Powdered Coal	Less	Poor	Coal Particle Size, Impurities Removal, Engine Operation and Durability
Methanol (From Coal)	1.6	Good	Special Vehicles, Distribution

Based on favorable cost ratios (relative to gasoline), oil-shale-derived gasoline and diesel fuel share the most promise for near-term development, according to GM Research.

The Alternatives

According to the GM researchers, liquefied petroleum gas (LPG) and natural gas currently are cheaper than motor gasoline, but the price edge is expected to diminish as natural gas is decontrolled. However, these fuels may take on important applications in commercial fleets and for recreational vehicles.

"Because natural gas may become more plentiful and its sources are more secure, relative to petroleum, its use as a potential source of automotive fuel should be examined more carefully," say the GM researchers.

Due to production and conversion obstacles, fuels derived from biomass "don't show much promise," says GMR. Ethanol is 2.8 times more expensive to produce than gasoline on an equivalent energy basis [see the cost/BTU comparison above], and its use—particularly as a blend for gasoline to make gasohol—will continue only as long as government subsidies and tax exemptions "keep its price artificially depressed," according to the automaker.

Gasoline, diesel fuel and methanol derived from coal have little short-term potential, says GMR, because of cost, technology and distribution problems. But with vast reserves of coal, the U.S. prospects for a coal-derived fuels industry "are considered good" over the long term.

At present, say the GM researchers, gasoline and diesel fuel derived from oil shale appear to be the least expensive motor fuel alternative. With a cost ratio of only 1.2 (relative to gasoline), the technology for converting oil shale into fuels "is approaching maturity if the retorting [separating the oil from the rock] is accomplished above ground. Underground retorting is still under development," says GMR.

Although interest has been shown recently in eastern U.S. shale oil deposits, GMR notes that most attention has been paid to known Rocky Mountain reserves. The inhospitable location of these deposits are proving to be the greatest obstacle to developing them, says GMR, and will continue to be.

"The highest quality U.S. oil shales are located in arid, sparsely populated areas of the West and it appears that the environmental and social changes associated with developing a large oil shale industry will hinder its growth."

The GMR report concludes that sometime after the year 2000, growing worldwide demand will exceed traditional petroleum production capacity. And, alternative fuels planning and development will likely be the only means to fill the breach.

"The massive enterprises cannot sprout overnight, and cannot thrive with support that waxes or wanes with every change in political or economic climate," says GMR.

"They need nurturing and steady support. A prudent, long-range outlook should recognize this need."

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More C-Stores, Fewer Stations Seen in '83

Why Some Midwest Jobbers Bought a Terminal

Now, Arco Tries Tuneups and High Gallonage

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Should You Diversify For Extra Profits?

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NATIONAL PETROLEUM NEWS

February 1983

VOL. 75 NO. 2

20 Regional News

20 **East Coast**
Gulf leaves 240-million gal. on table in the latest upstate New York pullout

21 **West Coast**
U.S. crude oil export ban is no favor for California, concludes state study

22 **Midwest**
Minnesota retailers aim for volume as new cardlock twist cuts overhead

24 **South**
An LNG/leaded fuel blend yields lofty margins, but legal pitfalls

25 **Rockies**
Intermountain marketers convene in Las Vegas, uncertain about supplier market commitments

27 General News

27 Station population fell 4.3% in 1982, gross sales rose to $107-billion
28 Convenience store growth crimped by last year's poor economy
28 Energy Department distributes $100-million in Amoco refunds
29 Federal gasoline tax hike has good and bad features for jobbers
30 Additional 1¢ tax break gives gasohol market new incentive to grow
31 Alaskan oil tax exemptions come under legal scrutiny
31 British Petroleum executive believes diesel power will surge
32 Collective bargaining legislation for marketers?
32 Money shortage slows Northeast fuel oil promotion effort
32 American Petroleum Institute says decontrol has been good for consumers
33 New round of gas controls instead of decontrol?
33 Exxon policies assist flood-ravaged areas
33 New cigarette tax spurs 'generic' sales
33 New England and Florida jobbers seek refiner divorcement/divestiture

36 Features

36 **Cover Report**
Should you diversify for extra profits?
- Mason builds an empire by pickin' and choosin'
- Ozark jobber gathers extra funds from cattle farms, leased assets
- Mooney Oil Corp.: Ventures hinge on people you know

43 **Management**
Northern jobbers purchase terminal in response to their pullout problem

46 **TBA/Aftermarket**
Arco enters specialty tuneup market to match service with high gallons

48 **Operations & Equipment**
Majors venture into cardlocks through a trail cut by indies

61 **Legal—Jane Jachimczyk**
Converting dealers to commission agents

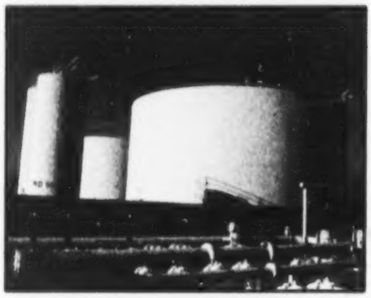
62 **Tax—Irving Blackman**
Best ways to take money out of the corporation

Departments

63 About Oil People
9 Ahead of the News
11 Catching Up
66 Classified
60 Coming Meetings
50 Fuel Oil Briefs
10 Late News
16 Letters & Comment
5 Looking Things Over
12 Marketplace
52 Product Briefs
12 Trends

After two years of tough times and dynamic industry changes, oil jobbers today are rushing to diversify into a wide range of sideline activities to shore up their overall profits. Even successful marketers say they can't make it any longer on fuel margins alone. Page 36.

Cover illustration by Ann Fieza, Chicago.



For years, a number of Wisconsin jobbers have been plagued by a revolving door of product suppliers. Now, several of them have struck an inventive deal that reaches for the door stop. Together, they bought a 135,000-bbl. Shell terminal. Page 43.

ARCO
MP&G TUNE-UP
Self Serve
107 8/10
Unleaded Gasoline
Self Serve
103 8/10
ARCO Gasoline

Tuneup has always been a mainstay of the automotive service business, whether the trend leans toward specialty shops or service stations. Atlantic Richfield believes the pendulum could swing in the direction of any major oil company willing to commit itself to the expanding market. And that is why Arco opened up more than 60 "MP&G Tune-up" shops in Southern California. Page 46.

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• TRENDS

More and More Voices Speak For Varied Jobber Interests

When President Reagan lifted controls on the pricing and allocation of petroleum products two years ago, he unleashed a horde of changes on marketers. Some of the changes were highly visible and came about quickly. Others have been subtle and much slower to arrive, but in the long run, may have consequences just as great.

In the "real world" outside the nation's capital, the impact of what Congress or the White House or federal agencies do is far more important than how they do it. That makes it easy to overlook changes in the way the legislative or regulatory process works and accounts for much of the "surprise" that accompanies a new law or regulation.

There are many such changes afoot in Washington now, but one in particular could have a profound effect on the way jobbers are represented in Washington.

"Not too many years ago, when there was legislation affecting jobbers in the works, there was a single representative—the National Oil Jobbers Council," says a long time lobbyist for the industry. "For a variety of reasons, that isn't true any more."

At the recent round of hearings conducted by Rep. Berkley Bedell's House Small Business Subcommittee on Energy [NPN—Jan. '83, p26], there were no less than five organizations testifying on behalf of jobbers, including NOJC. And NOJC's testimony, although spearheaded by a statement delivered by 1983 president Robert Thornhill, was largely composed of individual statements from each of the council's member associations.

NOJC's strategy in submitting dozens of separate statements was clearly designed to underscore the widespread sentiment in the marketplace that "something must be done" to insure that independent marketers aren't muscled out of the competitive arena by the major integrated oil companies. But it was equally evident that there is no clearcut consensus about what should be done. While some associations called for prompt enactment of divorcement/divestiture legislation, others argued that Congress should not intervene in the market.

The division of opinion was not confined to state organizations either. During the House hearings, it was plain that branded jobbers are not in total accord about a remedy for today's market problems. Texaco jobbers felt strongly enough to offer their own testimony, as did Arco distributors.

The reason for the differences of opinion on a "best course" in Congesss is decontrol. While it solved many of the difficulties encountered by marketers as a result of arcane regulations, decontrol clearly has created other problems. The new ones, however, vary widely from state to state, brand to brand. Free to adopt new marketing strategies for the first time in nearly a decade, the major oil companies have done so. Where Texaco opted for a 3% credit card surcharge, Arco decided to eliminate credit cards and others now offer discounts for cash. In some states, the majors are increasing their marketing presence. In others, they're pulling out. In each case, marketers are affected differently and a different "solution" is called for.

Why is it important whether there is "one voice" or many? It is clear that Congress is amenable to providing some kind of help. Except for patriotism, there probably isn't a more popular cause on Capitol Hill than small business. But it also is true that unless all concerned are in agreement about a course of action, congressmen would rather do nothing, in most cases, than risk offending those who oppose a legislative proposal.

The work on some kind of compromise legislation already is under way. A coalition of marketers, in fact, is trying to convince Congress to enact a "Bill of Rights," which, among other things, would provide collective bargaining privileges to jobbers in their dealings with suppliers [see page 32]. Those responsible for putting together the package concede that it is a fragile creature. How it is shaped—and whether it is adopted by Congress—will not be decided by a single organization speaking for jobbers.

State marketer organizations and individual branded jobber groups will have a great deal of power over the outcome of this effort and—more importantly—over those that will follow.

In fact, it is likely, given the Reagan administration's disdain for special interest legislation and its preference for "free market" forces—not to mention the lobbying power of the major oil firms—that individual states will be more able to help marketers than Congress.

The winners and losers in all of this probably will be determined by the ability of jobbers with different problems to cooperate, and by the willingness and ability of state organizations and brand associations to adapt to a legislative and regulatory system that no longer works the way it once did.

—Tom Goldsmith

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

NOVEMBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Leaded Premium
U.S. City Avg.	$1.268	$1.207	$1.283	$1.412
Regions:				
Northeast	1.288	1.230	1.289	NA
North Central	1.267	1.222	1.289	NA
South	1.252	1.188	1.266	NA
West	1.272	1.193	1.290	1.420

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	12/31/82	1/1/82
Gasoline (total)	239,996	252,179
Gasoline (unleaded*)	96,861	94,404
Kerosine **	42,973	43,450
Distillates	179,869	190,339
Residual	67,187	80,994

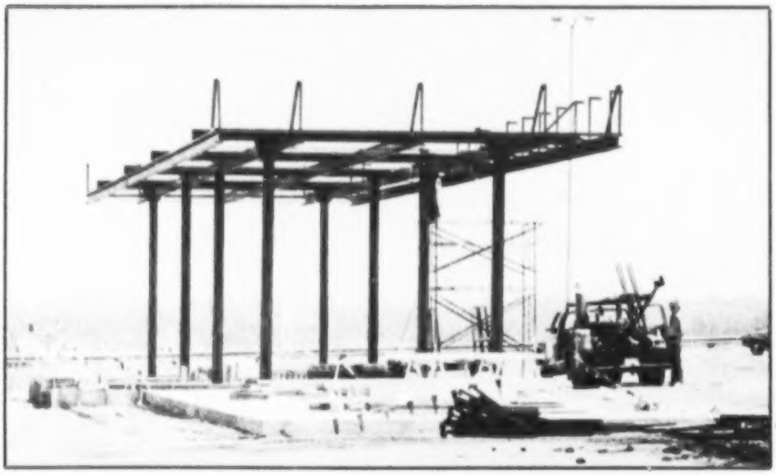
**Included in gasoline total.*

***Includes jet fuel.*

Source: American Petroleum Institute.

NATIONAL PETROLEUM NEWS FEBRUARY, 1983

Station Population Falls 4.3% Last Year; Gross Sales Rise to $107-Billion, Up 4.8%



Built to move 200,000 gal. a month and more, individual 'volume' units are replacing four or five smaller stations at a time, accounting for some of the population tailspin.

There is good news and bad news in the government's annual report on the U.S. service station population. The bad news is that, as expected, the population continued to decline in 1982. The good news is that the outlook for 1983, while still on the negative side, is not all that bad.

A 1981/1982 recap and the latest projections for 1983 were released at the end of January by the Bureau of Industrial Economics of the U.S. Department of Commerce. Between the U.S. Census Bureau's quinquennial nose counts, these numbers are considered the most reliable barometer of trends and totals in the industry.

The 1982 service station population was estimated to be 144,690 outlets. The decline in numbers from 1981's 151,253 stations was steeper than had been projected. In January of 1982, the bureau forecast that the population would fall no lower than 147,000 by the end of the year.

Thus, more than 6,500 service stations dropped out of the picture during the year just ended, for a 4.3% decline.

Although the government gave no reason for the continued decline, it can be assumed that supplier withdrawals, credit card finances, inflation and recession, glutted markets, sagging prices and miserable margins all contributed to the problem.

The peak year for service stations was 1972, when 226,500 outlets were counted. So, with only 144,690 outlets in 1982, more than 81,000 service stations have disappeared in the last 10 years—a decline of 36%.

The outlook for 1983, while still glum, is better. The federal government anticipates that the population shrinkage will slow, and that by December 31, there will be about 139,250 service stations—about 5,400 less than in 1982.

There are several things to remember, however, when interpreting the population figures.

First, as many of these stations disappear, they are replaced by units which pump more gasoline. Smaller stations are being "traded in" on bigger volume outlets. In other words, four or five 10,000 to 25,000-gal. a month stations may drop by the wayside, but they are being replaced by one 200,000-gal. a month pumper.

Second, these totals reflect only those units defined as "service stations" by the Census Bureau—stations which generate more than 50% of their income from the sale of petroleum products and services.

In real life, there are thousands of convenience stores, garages, mass merchandisers and other places that sell gasoline, but do not fit the "service station" definition.

It is hard—if not impossible—to come up with an accurate count of those additional outlets simply because no one has ever found a way to define, find and tally them.

Convenience store sources estimate their world to be 35,000 to 40,000 units, about half of which (approximately 17,500) sold gasoline in 1982. When the C-store numbers are added in, the gasoline station population increases to at least 162,000 outlets in 1982 and to 157,000 or more in 1983.

Industry experts also assume there are at least 10,000 more gasoline dispensers at mass merchandisers like Sears Roebuck, and at garages, fleet operations, and rural co-ops.

Here again, the population total could be upgraded—to around 172,000 outlets in 1982 and about 167,000 in 1983.

So, overall, the station population, while shrinking constantly, is not really shrinking as fast as it seems.

The bureau's 1982 and 1983 numbers bring good news in the dollar department: Gross sales are increasing, and the bureau estimates industry sales were $106.5-billion in 1982 (up from $101.6-billion in '81) and will be 114.5-billion for 1983.

However, early in 1982, the government predicted the 1982 sales total would be higher, perhaps $117.7-billion, but the continuing decline in gallonage changed that.

Copies of the government's service station report, entitled "Franchising in the Economy 1981-1983," are available from the Department of Commerce.

Service Station Population Dips Again

	1983	1982	1981	Percent Changes 1982-83	Percent Changes 1981-82
Number of establishments	139,250	144,690	151,250	−3.8%	−4.3%
Company-owned	25,065	26,044	27,225	−3.8	−4.3
Franchisee-owned	114,185	118,646	124,025	−3.8	−4.3
Total sales of products and services (Add 000,000)	$114,534	$106,544	$101,665	7.5	4.8
Company-owned	20,616	19,178	18,300	7.5	4.8
Franchisee-owned	93,918	87,366	83,365	7.5	4.8

Source: Bureau of Industrial Economics, U.S. Department of Commerce, "Franchising in the Economy 1981-1983."

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C-Store Parade Rained On, But Not Out, in '82

The recession also had its impact on growth in the convenience store world in 1982, according to the Commerce Department's Bureau of Industrial Economics [see preceding story]. Growth is continuing but at a much slower rate than projected just one year ago.

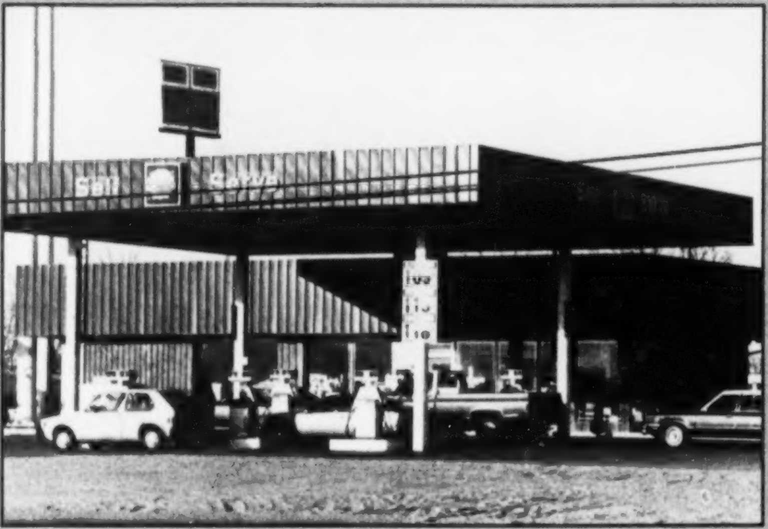
For example, the population of franchised stores had been expected to hit a total of 17,312 as of last Dec. 31. Instead, the total was 16,256 stores—about 1,000 less than had been forecast.

The projection for 1983 sounds like 1982 all over again. The bureau predicts that the population will be 17,256 next December.

A thing to remember in dealing with the C-store report is that the government bureau counts and/or estimates only those in the franchise areas. It does not give consideration to thousands of independents, "Mom and Pops" and so on. Most C-store authorities estimate the industry population between 35,000 and 40,000. Thus the government report embraces only about half of the facilities in business.

Dollar sales are up fantastically for the franchise companies, expected in 1983 to top $10-billion for the first time. This is 10% more than in 1982 which was 10% more than in 1981.

California and Texas are neck and neck in C-store totals. Each, according to the government report, had just under 2,000 units. Florida is third with about 1,400. Four states were said to have no convenience stores at all—Alaska, South Dakota, Vermont and Wyoming.



One C-store added in 1982 was this converted service station, rebuilt by Missouri jobber Paul Shultz (see page 40). The government doesn't include this unit in its C-store tally.

C-Store Growth Flattens Out in 1982-83

	1983	1982	1981	Percent Changes 1982-83	Percent Changes 1981-82
Total number of establishments	17,276	16,256	15,524	6.3	4.7
Company-owned	10,205	9,741	9,356	4.8	4.1
Franchisee-owned	7,071	6,515	6,168	8.5	5.6
Total sales of products and services (Add $000,000)	10,168	9,252	8,406	9.9	10.1
Company-owned	5,847	5,359	4,897	9.1	9.4
Franchisee-owned	4,320	3,893	3,509	11.0	11.0

Source: Bureau of Industrial Economics, U.S. Department of Commerce, "Franchising in the Economy 1981-1983."

Amoco Jobbers Share $16-Million in Refunds

In coming months, Department of Energy refunds from an escrow account that had swelled to $100-million will mean an average $7,500 check for each Amoco jobber in the country.

DOE has finally come up with a method for disbursing the funds put aside when Standard Oil of Indiana agreed to pay $72-million to settle allegations that it violated price and allocation regulations from March 1973 through December 1979. The $72-million settlement, drawing interest, is now more than $100-million.

The refund formula adopted by DOE allocates about $15.7-million to jobber claims, or about 34% of the $46.17-million set aside to handle motor fuel claims. The final formula is slightly more favorable than the one proposed by DOE last August and is considered a victory for Amoco jobbers, as well as jobbers involved in other, unsettled overcharge cases. The distribution scheme is an important milestone, according to Daniel Autry, chairman of the National Oil Jobbers Council's (NOJC) Amoco brand committee.

Autry says the refund formula represents DOE recognition that jobbers and other "downstream" purchasers were injured by Amoco overcharges, and makes the presumption that they should be compensated without having to prove injury.

"The retention of these presumptions was, I believe, our greatest success," says Autry. "It is difficult to overestimate the precedential impact of this decision in future refund cases."

Refunds under the distribution procedure set up by DOE's Office of Hearings and Appeals will not be automatic, however. Amoco jobbers will be required to submit an application, either individually or through the NOJC Amoco brand committee. The DOE office says normal applications will be simple and should not require professional assistance.

Autry encourages Amoco jobbers to apply for their refunds through the brand committee, pointing out that "in most cases, we already have everything we need to file claims for them."

This assumes that the applicant is willing to accept a refund based on the formula devised by DOE. The formula would award each jobber $304.30 for each 1-million gal. of gasoline purchased from Amoco, plus $358 for each 1-million gal. of Amoco gasoline sold at retail, and $340.10 for each 1-million gal. of middle distillate (heating oil, kerosine and diesel fuel) purchased from Amoco. Eligible purchases and sales are those from the period beginning March 1, 1973 and ending Dec. 31, 1979.

Those who can prove that Amoco violations of price regulations caused them more harm than the DOE formula covers can file for larger refunds. **NPN**

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March, 1983 $4.00

Refund Bonanza: Will You Get Your Share?

How Multi-Unit Dealer Makes Full-Serve Pay

New Motor Oil Packaging Ideas Emerge

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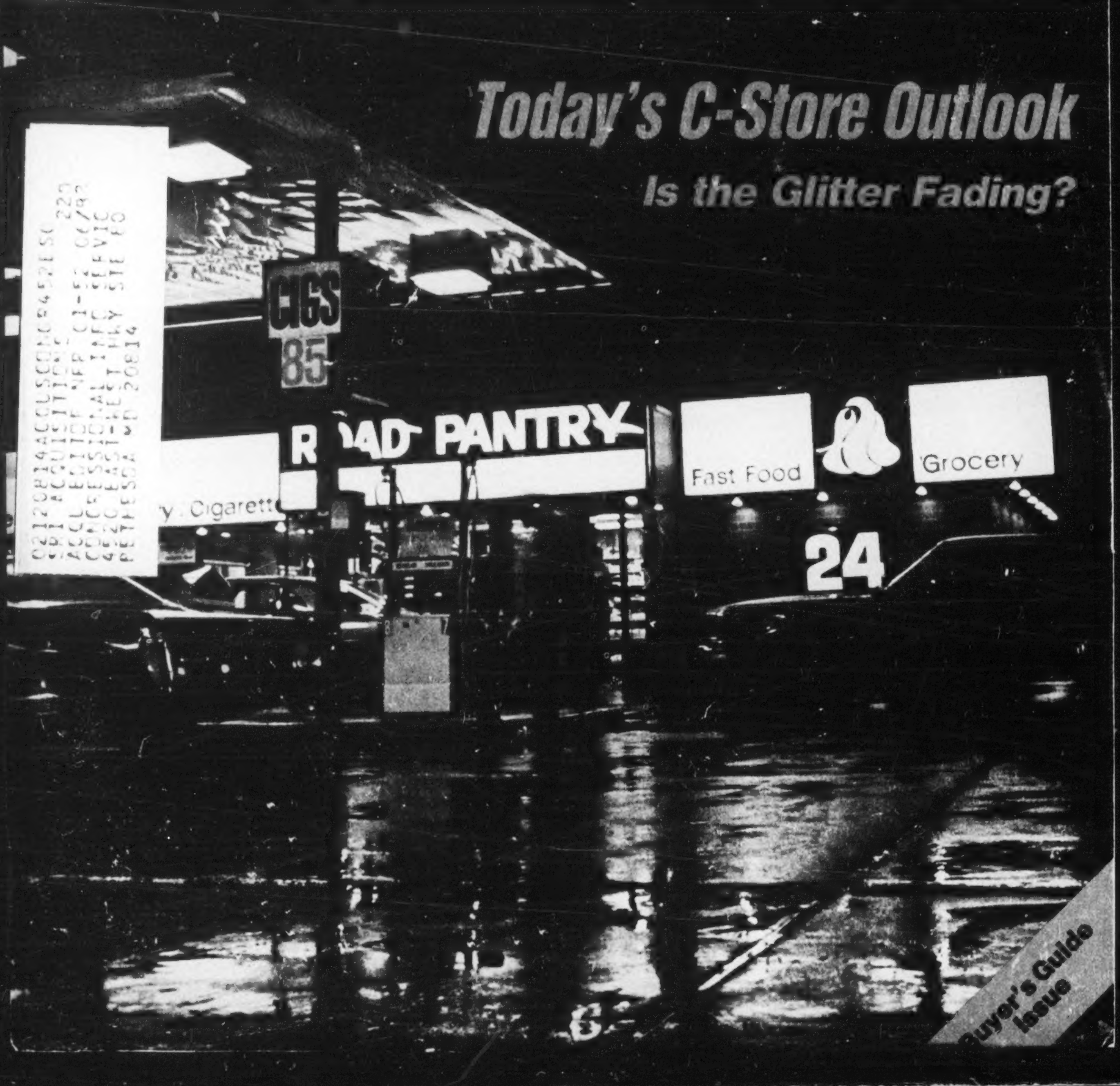
CIGS
85
ROAD PANTRY
Fast Food
Grocery
Cigarett
24

Today's C-Store Outlook

Is the Glitter Fading?

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Buyer's Guide Issue

NATIONAL PETROLEUM NEWS

MARCH 1983 VOL. 75 NO. 3

19 Regional News

19 South
Arkansas jobber claims his bankruptcy arose from Texaco dealer rebate plan
23 West Coast
Barring a gasoline price collapse, gasohol should maintain its growth
24 Midwest
In a position to know, jobber reps say tough times are here alright
30 East Coast
Judicial process slows progress on two cases affecting jobber interests
32 Rockies
Jobber starts own cash discount plan

35 General News

35 No-card/all-card fight produces winners, but no clear decision on "right" strategy
36 Majors battle on television and in the streets as year-old credit card free-for-all winds down
37 Amoco refund may set up cash bonanza
38 Gulf puts "for sale" signs on 3,400 small town stations
38 Occidental said to be seeking a foreign partner for Cities Service's refining and marketing arm
39 Texaco's "investment" units wrankle jobber
40 1982 convenience-gasoline sales up 21.4%
42 Gasoline demand fell for 4th straight year
42 Motor fuel tax hikes get 37-state review
43 Earnings suffer again in 1982 market pinch
43 FTC seeks public comment on advertising rule change
44 Apex lands Corco Refinery, buys Crown Central stock
44 NOJC opts for legislation, backs "Bill of Rights"

48 Features

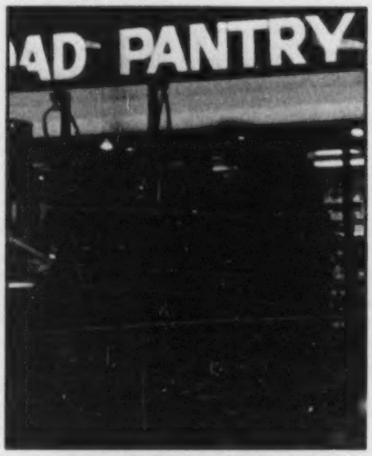
48 Management
Jobbers battle economy, labor strike to propel retail complexes in Texas
51 Kerosine
Industry folks part ways on Kero. How *does* one spell it, anyway?!
53 Lubricants
Motor oil makers face a choice: go for jug-ular, or stay on can?
55 TBA/Aftermarket
Retailer boosts full-serve volume on California's self-service turf
63 Special Report
Today's C-store outlook
- C-store/gasoline tie-in still good, but costs, competition are rising
- C-stores are OK, says veteran Love, if they can move 900,000 gal./month
- How Watson Oil still makes money in its small, East Texas market
- Sweeney's C-stores make the difference between profit and loss

83 Buyer's Guide
- Products and services
- Suppliers

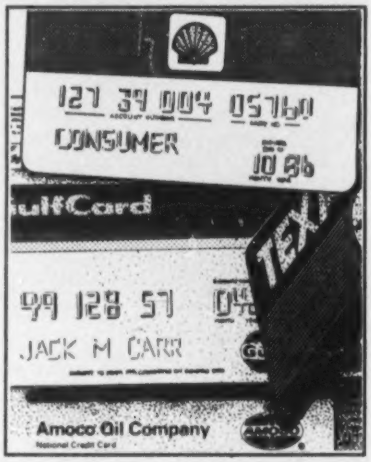
129 Legal—Sam Borenkind
Divorcement: can of worms for jobbers?
130 Tax—Irving Blackman
Free life insurance due to tax law flaw?

Departments

131 About Oil People
11 Ahead of the News
13 Catching Up
134 Classified
128 Coming Meetings
12 Late News
16 Letters & Comment
5 Looking Things Over
132 News Notes
79 Product Briefs
61 TBA Briefs
14 Trends/Marketplace



One of the hottest diversification trends ever to hit the gasoline and convenience store industries—the self-serve pumper/convenience store tie-in—is still one of the lowest-cost methods of doing business for both sides. Page 66.



If the companies involved in the credit card wars are to be believed, it doesn't seem to matter which tactics the majors used during the past year. The conclusion in the current lull is that no company lost much, and many made big gains. Page 35.

When you have $1.8-million invested in two brand-new retail fuel and food complexes at 14.8% interest on a 15-year payout, the last thing you need is a labor strike. Especially when the strike is against your supplier. Page 48.

• TRENDS

Gasohol on the Ascendency As an Important Motor Fuel

Gasohol came of age as a motor fuel in the United States in 1982, and with an increase in the federal excise-tax exemption from 4¢ gal. to 5¢ on April 1, it seems likely to break new sales records in 1983 and beyond.

U.S. Department of Transportation (DOT) data, which are incomplete anyway, don't go to the end of 1982. However, gasohol sales during the first three quarters of 1982 were 1,148,880,000 gal., up 133% from the same period a year earlier, DOT reports. Other estimates in the ethanol trade put the alcohol-blended-fuels total for the year between 2.2-billion and 2.5-billion gal.

Roger Smith, editor of *Alcohol Week*, a newsletter, thinks 2.2-billion to 2.3-billion is about right, comparing that to 850-million gal. in gasohol sales in 1981. On this basis, gasohol sales jumped 2.6 times (165%) in one year. Smith believes gasohol sales could double or triple again in 1983, although he emphasizes that it depends on how much states cut their own exemptions as an offset. Revenue losses are putting a lot of pressure on states to do so [NPN—Feb. '83, p30].

Despite some whittling away of state exemptions, it's not considered likely that the combined effect of state actions will dilute or totally wash the 1¢ federal exemption increase. *Lundberg Letter* has calculated that the weighted national average state tax exemption (or forgiveness) was 2.77¢ gal. at the end of 1982.

With the 1¢ federal increase, therefore, gasohol gets a boost, after doing extraordinarily well without it last year.

Gasohol's rapid growth is, in a way, its worst enemy. "Once the market penetration gets up too high and the revenue losses get too big, counterforces set in to try to bring them back down again," Smith says.

But the federal exemption is effective through 1992—a whole decade during which ethanol and gasohol marketers can try to figure out ways to rely on state exemptions less and less.

Gasohol has rapidly become a significant motor fuel, with a U.S. market share of 2.2% to 2.5% of total gasoline sales last year. Premium leaded gasoline now amounts to less than 1%, premium unleaded about 11%.

In states where exemptions are large, gasohol's share of the gasoline market is considerably greater. Here are shares for the first nine months of 1982: Nebraska 9.3%, Oklahoma 6.1%, California 4.2%, Michigan 3.8% and Iowa 3.5%. Not bad for a product that many marketers thought would end up on the endangered list when gasoline supplies became plentiful again after the 1979 shortage.

The question might arise whether U.S. ethanol producers have enough production capacity to handle the growing gasohol demand, particularly since the U.S. tariff on imported ethanol jumped to 40¢ gal. Jan. 1 from 20¢, and will be bumped up to 50¢ gal. April 1.

Ethanol imports, mostly from Brazil, "flooded" the U.S. market in late 1982, *Alcohol Week's* Smith reports, contributing to a decline in ethanol prices. Certain large Brazilian ethanol importers consider it highly unlikely that Brazil will cut prices sufficiently to offset a 50¢-gal. tariff, and that therefore Brazilian and other overseas' sources of ethanol are expected to dry up.

The probability is that U.S. capacity is sufficient to meet gasohol demand even if it grows as much in 1983 as it did in 1982. "With the capacity that's come on line the last few months [of 1982], production is probably enough to deliver at a rate of 300- to 400-million gal. of ethanol, or 3- to 4-billion gal. of gasohol," Smith says.

There's a hitch in calculations of this sort, however. Ethanol production is described as very flexible because most plants that make it use feed-grade corn and can swing readily to making high fructose corn syrup if the ethanol market doesn't want it all. "So ADM [Archer Daniels Midland, the principal U.S. ethanol producer] allegedly has 220-million gal. of capacity, but they may be using little of it, depending on the market," Smith says.

Such leverage would seem to be an opportunity for ethanol producers to limit supply and raise prices. But the economics of gasohol, based as they are on the ratio of 10% ethanol to 90% unleaded gasoline, don't leave much room for that.

"Ethanol producers know what it takes to keep the market from going to unleaded," an ethanol distributor says. "They have to watch gasoline rack prices like a hawk. As the gasoline price goes down, ethanol prices have to go down or gasohol is driven out of the market."

So long as ethanol makers continue to have the will to supply the gasohol market, as they now do, they'll do what's necessary to keep gasohol competitive. Marketers believe it would take a severe turn in economic circumstances to push ethanol producers out of the motor fuel market. **—Mark Emond**

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

DECEMBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Leaded Premium
U.S. City Avg.	$1.244	$1.181	$1.260	$1.371
Regions:				
Northeast	1.278	1.219	1.280	NA
North Central	1.247	1.202	1.269	NA
South	1.234	1.167	1.248	NA
West	1.223	1.141	1.243	1.374

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	1/28/83	1/29/82
Gasoline (total)	247,287	258,493
Gasoline (unleaded*)	99,368	100,451
Kerosine **	33,451	31,231
Distillates	165,546	166,663
Residual	61,519	75,824

**Included in gasoline total.*

***Jet kero only; totals no longer kept by API and DOE.*

Source: American Petroleum Institute.

By Mark Emond

WEST COAST

Barring a Gasoline Price Collapse, Gasohol Should Maintain its Growth

Gasohol sales in most West Coast states rose spectacularly in 1982, and given the additional federal tax exemption beginning next month, could do so again this year.

Sales in some states almost quadrupled during the first nine months of 1982 over the same period a year earlier, latest U.S. Department of Transportation (DOT) figures show. As steeply as sales were climbing, growth could be as much as sixfold when annual totals are tabulated.

There are gasohol sales in each of the five states in this region — Arizona, California, Nevada, Oregon and Washington — but 97% of the regional total was in California during the first three quarters of last year. Gasohol sales during that period were as follows (shown in parentheses is the percent change from the same period a year ago):

Arizona, 4,316,000 gal. (+297%); **California**, 315,075,000 gal. (+291%); **Nevada**, 767,000 gal. (+169%); **Washington**, 5,439,000 gal. (−31%). Gasohol sales in **Oregon** are not reported.

In the ethanol trade, U.S. gasohol sales are estimated to have totaled 2.2-billion gal. in 1982, representing 2.2% of gasoline sales. [For a national report on the gasohol trend, see page 12.]

The term "gasohol" is little used in marketing now, lacking in most places the popularity it once had. It is ordinarily called unleaded with ethanol, usually regular but sometimes premium. Whatever the name, it's a mixture of 90% gasoline and 10% ethanol (ethyl alcohol).

The addition of 10% ethanol boosts octane about three numbers, ethanol producers say, permitting a blender to start with a less expensive unleaded subregular if available, or providing extra octanes above the regular.

Because ethanol costs approximately twice as much as gasoline, it must overcome the cost handicap by means of a tax exemption or higher price. Tax exemption is by far the most important means. The federal exemption is 4¢ gal., rising to 5¢ April 1. Some states provide additional exemption.

Gasohol marketing is most successful in states with the greatest exemption, understandably. But despite the widespread belief that gasohol can't compete unless it has more than a 4¢ federal exemption, some marketers are selling gasohol profitably where there is no state exemption at all.

A case in point is Burns Bros., a chain of six truckstops based in Portland, Ore. There's no state exemption in Oregon, but Burns Bros. reports 20% of its gasoline sales are of "Burnsohol," which the company has been marketing for three years.

Selling the product as a super unleaded premium, Burns Bros. usually prices it 5¢ to 6¢ gal. above regular unleaded, but sometimes cuts 5¢ to 6¢ below regular unleaded for promotional reasons, reports Steve Anderson, operations manager.

"We have a good customer base for Burnsohol," says Anderson. "A lot of people use it and like it. We ballyhooed the hell out of it originally . . . the governor bought the first gallon . . . and stuff like that. When we run specials, we retain some of the customers."

Arizona's dramatic gasohol sales growth in 1982 came with no state exemption. The state exemption in Washington in 1982 was 1.2¢ gal., in Nevada 1¢.

But California, with its 4¢-gal. state sales-tax exemption in 1982, is where most of the action was. Gasohol is a big and growing business there. California leads all other states in gasohol sales. During the first three quarters of 1982, gasohol represented 4.2% of the state's 7.6-billion gal. in gasoline sales.

The biggest gasohol marketers in California, according to state records, are Beacon, an independent refiner/marketer, and Target, World, and Armour, independent marketers, in that order. The biggest ethanol marketers are Beacon and Tropicana, an independent.

The state exemption was cut to 3¢ gal. on Jan. 1, causing a temporary cramp, but only until the additional 1¢-gal. federal exemption comes to the rescue April 1. At that time, gasohol will be on the same exemption footing it was in 1982 when it did so well.

A growing problem that confronts gasohol everywhere in the country is the drop in wholesale gasoline prices. As gasoline prices fall, ethanol becomes less economic to blend. Because of the fixed ratio of ethanol to gasoline, the economics of gasohol are based on simple and inescapable arithmetic.

Gasohol marketers will be pleased to know that ethanol suppliers reportedly want to keep the California business even if it means increasing rebates. The practice has been for major ethanol suppliers to rebate whatever amount is necessary to keep gasohol competitive. Local ethanol sellers pass the rebate through to gasohol marketers as a matter of necessity.

The table below shows how the tax exemption is offset at various gasoline and ethanol price levels. If the blended price of gasohol exceeds, equals, or even approaches the exemption too closely, marketers have little or no incentive to sell it.

For example, say the rack price of regular unleaded is 90¢ gal., and ethanol is priced at $1.50 gal. Nine-tenths of a gal.

What State and Federal Tax Exemptions Must Overcome for Gasohol to Compete

Reg. Unleaded Rack, ¢/gal.	Ethanol rack price (¢/gal.) 170	165	160	155	150	145	140
70	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
75	9.5	[illegible]	8.5	8	7.5	7	6.5
80	9	8.5	[illegible]	7.5	7	6.5	6
85	8.5	8	7.5	[illegible]	6.5	6	5.5
90	8	7.5	7	6.5	[illegible]	5.5	[illegible]
95	7.5	7	6.5	6	5.5	[illegible]	4.5
100	7	6.5	6	5.5	5	4.5	[illegible]

The figures above in colored units represent the difference between the price of blended gasohol and the price of unleaded gasoline at various gasoline and ethanol price levels. If the numbers exceed or equal the tax exemption, there may be no incentive to sell gasohol.

of unleaded is 81¢, one-tenth of a gal. of ethanol is 15¢, for a total of 96¢. The current 7¢-gal. gasohol exemption in California, of which 4¢ is federal and 3¢ state, lowers the gasohol price to 89¢. Therefore, there is a 1¢-gal. incentive to market it in competition with 90¢ regular unleaded. This ignores any blending or separate storage costs.

In the marketplace, the incentive is often greater than 1¢ because some marketers sell gasohol as premium unleaded and charge a higher price for it. An 87-octane regular unleaded may become a 90-octane "premium" gasohol. Or a substandard and presumably cheaper 84-octane unleaded may become a standard 87-octane gasohol. Either way, there is a basis for obtaining a somewhat higher margin on gasohol in these circumstances.

Posted prices of ethanol quoted in trade papers aren't the real prices unless supply is very tight. For example, although quoted West Coast prices were $1.65 to $1.70 gal. recently, some actual prices in California were $1.45 gal., trade sources say.

As gasoline prices continue to fall, how much additional rebating will ethanol producers be willing to offer?

A California ethanol marketer figures freight from a Midwest plant amounts to 17¢ gal., terminaling 3¢, profit 1¢, for a cost of 21¢ gal., plus truckloading by or to a gasohol marketer. On this basis, $1.45 ethanol goes back to $1.24 at the plant.

"The producers are big companies with big plants, and they're in the position of having to keep gasohol competitive," the marketer says. "They say they want to stay in the California market, and they've been doing it. Gasoline prices are falling, and the pressure is on."

Wickland puts coal facility on hold

Wickland Oil Co.'s 500,000-bbl. deepwater terminal in Selby, Calif., in the San Francisco Bay area, has been operating for some time, but plans for a coal transshipment facility there were "put on hold for a period of time" in hopes the regulatory climate will improve."

"We were hoping that with the new administration in California some of the regulatory procedures would be simplified," says Roy Wickland, president of Wickland Oil Terminals, Sacramento, "and it appears that might happen. I think in the next 12 months we'll be in a better position to look at the options available to us."

The size of the proposed coal terminal has been scaled down from 15-million tons a year [NPN—Oct. '81, p16] to perhaps 5-million tons because of weak crude oil prices worldwide.

"The expected demand for coal in the Far East is not what we thought it would be," Wickland explains. "Unless crude prices take off again, the demand for Western coal will be smaller than expected."

Other possible uses are also being considered, short and long term, he says.

Meanwhile, plans are going ahead to build a loading rack and some additional tankage this year.

Regulations and weak demand have stalled Wickland Oil's coal terminal.

Good or bad cents

Efforts of creditors to keep the struggling "Good Cents" chain of about 55 gasoline stations operating long enough for a long line of creditors to get paid have failed. The company, in the hands of its creditors, filed for protection under Chapter 11 of the federal bankruptcy law.

The Glendale private brander Robert J. Nassaney, who built the chain in a couple of years mostly from marginal and closed stations [NPN—Oct. '82, p17], is the "debtor in possession," but he's "not getting a nickel out of the business," a creditor says.

Originally some creditors believed that if Good Cents was properly managed and liquidated there might be enough assets to pay off the bills and leave something for Nassaney. But, a creditor reports, one of the creditors kept attacking and forced the rest into bankruptcy protection.

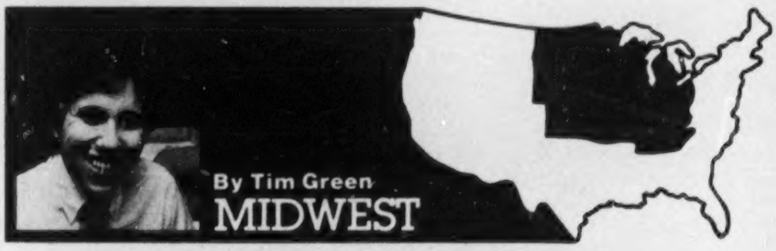
With about 30 stations left, the company was averaging 35,000 gal. a day on a 17¢-gal. average margin and "holding up their head," a creditor says, but with frequent attacks on assets, it became a scramble of attorneys.

"They're going to come out badly," a creditor says. "There are more and more attorneys, and there are all of those fees to be paid. It's pathetic."

What went wrong in the first place? "The company was losing $10,000 to $12,000 a day," a creditor states. "It was a product of the seventies.

"Under circumstances of the times, a marketer could make $100,000 a year with one station if he was smart and applied himself. Some guys invested it properly and bought other properties. Some guys just threw it away," the marketer says.

"All of a sudden things get tough, and you don't know when to get tough with them. There are going to be more of these [failures], and you can pretty much figure out who will be around. They're the well-financed, experienced guys who have their feet on the ground. They've been through this kind of market before. They know how to do it."



By Tim Green

MIDWEST

In a Position to Know, Jobber Reps Say Tough Times Are Here Alright

Jobbers in two states heavily dependent on single industries—Michigan on autos and Nebraska on farming—are grappling with demand declines as steep as any in the country today. But tales of "hard times" are being told all over the Midwest.

Poorer and poorer markets are causing jobbers and their representatives to worry more and push harder for corrective measures. It's the association executives who hear jobber gripes, and listening to the guys who listen to the jobbers can be enlightening:

- **Jerry Everett**, Northwest Petroleum Assn. executive director:

"Here in Minnesota and in North Dakota, the market is the worst I've ever seen—and it keeps getting worse. I'm flabbergasted. I see the price one week, see it 2¢ lower the next week, and 2¢ lower the week after that. It just keeps falling.

"I think the situation will keep getting worse. The dealers all have gallonage fever. They always have, and they always will. They can't let the guy down the street

1982 Convenience-Gasoline Sales Up 21.4%

For the seventh year in a row, retail gasoline operations in the convenience store industry have proved to be such a dynamic force that they may one day dominate the small-food-store universe.

This is becoming more apparent with each annual report of John F. Roscoe's "Dollars Per Day Survey," the latest of which was issued in mid-February. Roscoe is a C-store operator himself, based in Concord, Calif. His chain includes 160 stores in five western states [NPN—Jan. '83, p22].

Technically, Roscoe's survey embraces only 11 publicly owned chains. But because the 12,400 stores owned by the chains represent almost one-third of the industry's presumed population of 39,000, they are considered to be a good indicator.

Roscoe's 1982 survey shows that 5,799 of the 12,400 stores, or 46.76%, marketed gasoline in the preceding 12 months. This is an increase of 2.31% over 1981 totals. Significantly, only 21.16% of the chains' stores retailed gasoline in 1975; thus this percentage has more than doubled in the short space of seven years [see table on facing page].

The 11 chains sold 2,112,975,731 gal. of gasoline in 1981 and first-half '82, worth a grand retail total of $2,603,083,648. This is an increase of 12% in gallonage over 1981, and a 21.4% rise in sales dollars.

Gallonage and margin data were not too plentiful in Roscoe's 1982 survey but here are some highlights on the four most profitable companies:

- **Shop & Go:** Volume up 15.4% over 1981 with a rental figure of 5.7¢ gal. pumped, up 1¢ gal. over the preceding year.
- **Circle K:** Volume up 15.6% but margins were lower. Specific figures were not given but the annual reports indicated margins ranged from 8.9¢ down to 4.7¢ in 1982, versus 12.4¢ to 6.5¢ in 1981.
- **Southland:** Volume up 10.3% but no margin figures were given.
- **National Convenience:** Volume up 3% with the average margin at 7.5¢ gal., up 1.7¢ gal. from the previous report.

The volume increases are in sharp contrast to recent trends for traditional oil marketers where shrinking demand has cut heavily into growth patterns and annual statistics. This prompted Roscoe to note in an editorial commentary, "Ask not for whom the bell tolls, the bell tolls for the 147,000 gasoline station operators who derive more than half of their income from gasoline sales."

Among the 11 chains, Dallas-based Southland Corp. ranked No. 1 in the number of stores (7,002); the number of gasoline units (2,517); total gallonage (956-million gal.), and retail dollars ($1.2-billion). Light years away was second-place Munford, Atlanta, Ga., with $335-million in sales. Munford was the only one of the 11 chains to generate fewer sales dollars in 1982 than 1981, falling 5.8%, according to Roscoe.

He notes that 47% of the stores owned by the 11 chains market gasoline. If that percentage is projected to the generally agreed-upon C-store population of about 39,000, more than 18,000 C-stores are selling gasoline nationwide, he concludes. He also theorizes, on the same basis, that C-stores now control 6.98% of the national market.

According to Roscoe's report, gross sales for the 11 chains in 1982 totaled $8.1-billion, of which $5.5-billion was for food and $2.6-billion for gasoline. The year-ago figures were $7.0-billion overall, with $4.8-billion coming from groceries and $2.1-billion from gasoline. Thus, total sales were up 30.7% in 1982, with groceries gaining 13.5% and gasoline dollars up 21.4%.

(Gasoline aside, one of the primary aims of the annual Roscoe report is to rank the chains in terms of their profitability—on a dollars-per-day basis. His formula shows that Shop & Go, of Mango, Fla., was the most profitable chain for the second consecutive year, and for the fourth time in 12 years. It was followed by Circle K, Southland, National Convenience and Lil' Champ among the top five.)

Roscoe noted in his commentary that the C-store industry is experiencing an unheaval similar to what gasoline marketing has seen in recent years.

"A few years ago, most of the companies in the industry used a cookie-cutter approach and turned out stores without much concern for the requirements of the locale.

1982 Gasoline Rankings, Top 11 Chains

Company	1981 Survey Ranking	1982 Dollar Sales	% Chng. Vs. Year Ago
Southland	1	$1,195,400,000	30.1%
Munford	2	334,950,000	(5.8)
Circle K	3	283,400,000	24.8
National Convenience	5	255,470,000	43.3
Conna	4	190,139,000	4.4
Dillon	6	114,892,000	15.1
Sunshine Jr.	7	85,875,774	28.2
Shop & Go	9	60,270,000	18.9
Li'l General	8	59,236,625	8.9
Lil' Champ	10	13,794,124	20.8
Mini Mart	11	9,656,125	91.3
1982 Total		$2,603,083,648	19.1%
1981 Total		$2,144,571,343	21.4%

Source: 12th annual Dollars-Per-Day Survey, John F. Roscoe.

Gasoline Units Controlled by Convenience Store Chains

1982 Profit Ranking	Company	No. of Stores	No. of Gasoline Units	% with Gasoline	Gasoline Units Added In Year	No. of Stores Added In Year
1	Shop & Go	405	268	66%	3	(7)
2	Circle K	1,211	780	64	27	17
3	Southland	7,002	2,517	36	271	107
4	National Convenience	922	585	63	107	90
5	Lil' Champ	162	66	41	22	14
6	Dillon	349	250	72	8	11
7	Li'l General	460	208	45	4	(14)
8	Mini Mart	114	38	33	9	2
9	Sunshine Jr.	354	307	87	19	1
10	Conna	434	309	71	(5)	18
11	Munford	987	471	48	(72)	(132)
Totals		12,400	5,799	47%	393	107

Source: 12th annual Dollars-Per-Day Survey, John F. Roscoe.

"Changes in economic conditions and consumer awareness of these changes have forced the companies to re-evaluate their operating practices and expansion plans.

"Almost everyone now believes the operating environment has changed. Some operators accept the facts but are unclear about the solution. Some believe their troubles are caused by general economic conditions and that things will improve once the good old days return.

"Personally, I believe this approach is unjustified. Humpty Dumpty has fallen off the wall, and we'll never put Humpty Dumpty together again."

What the industry must do now is "shuck off the past," he said.

The chains, he added, now know they can't afford to operate old, run-down, low-volume, unprofitable stores. Many of these have been closed. More importantly, the successful chains seem to be replacing these stores with new stores that are generating higher sales volumes.

All this may sound familiar to gasoline marketers who have seen their universe shrink steadily since 1972, with small stations being eliminated and big pumpers springing up in their place.

Said Roscoe, looking ahead: "The future looks much brighter. . . . One of the problems of the past has been the ease of entry into the business. That has changed. You can't start one store today for what you could start a hundred-store chain a few years ago.

"It's going to be a better business for those who change and remain in business. There will be fewer stores with bigger sales, higher profits, and lower returns on equity than in the leveraged past."

—J. Richard Shaner

Top Profit Chains: Gasoline Statistics

Shop & Go	% Change Vs. Year Ago
Operating income from gasoline sales: $2,723,000	39.2%
Number of units: 268	1.1
Gallonage: 49,000,000	16.7
Avg. retail price: NA(a)	
Rental received per gal. pumped: 5.6¢	21.7
Avg. gallonage per unit per month: 15,236(b)	15.4

(a) Not available; (b) Estimated by NPN on available data.

Circle K	% Change Vs. Year Ago
Gasoline sales: $283,400,000	24.8%
Number of units: 780	3.6
Gallonage: 230,700,000	19.8
Avg. retail price: $1.228	4.2
Avg. margin (see footnote)	
Avg. gallonage per unit per month: 25,063	15.6

*Annual report says margin varied between 4.7¢ and 8.9¢ in 1982 vs. 6.5¢ and 12.4¢ in 1981.

Southland	% Change Vs. Year Ago
Gasoline sales: $1,195,400,000	30.9%
Number of units: 2,517	12.1
Gallonage: 956,000,000	20.6
Avg. retail price: $1.250	8.6
Avg. margin: NA(a)	
Avg. gallonage per unit per month: 33,458	10.3

(a) Not available

National Convenience Stores	% Change Vs. Year Ago
Gasoline Sales: $255,470,000	43.3%
Number of units: 585	22.4
Gallonage: 216,500,000	18.8
Avg. retail price: NA(a)	
Avg. margin: 7.5¢	2.7
Avg. gallonage per unit per month: 33,945	3.0

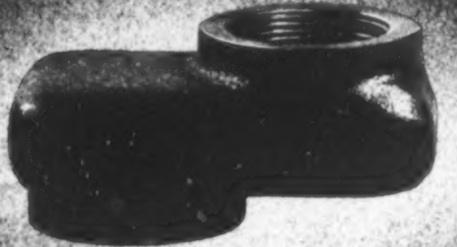
C-Store Gasoline Growth Doubles In Seven Years

Survey Year	No. of Stores	Net Growth	No. with Gasoline Units	Gasoline Units Added in Year	% of Stores with Gasoline Units
1982(a)	12,400	107	5,799	393	46.76%
1981	12,445	205	5,533	442	44.45
1980	13,167	247	5,630	447	42.76
1979	12,920	313	5,153	569	39.88
1978	12,597	644	4,584	792	36.38
1977	11,953	360	2,792	959	31.72
1976	11,356	672	2,786	557	24.53
1975	10,143	928	2,147	194	21.16
1974	9,258	1,042	1,964	—	21.21

(a) Data includes either full- year 1981 or half-year 1982 for participating chains, depending upon fiscal years involved.
Source: 12th annual Dollars-Per-Day Survey, John F. Roscoe.

"SHORTY"

COMPENSATES FOR MISALIGNMENT OF SUCTION LINE WITH PUMP SUCTION STUB



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Gasoline Demand Fell for 4th Straight Year

Continuing the trend of recent years, gasoline consumption declined another 1.3% in 1982, according to American Petroleum Institute's year-end summary of key distribution statistics.

Technically, the API figures account for only the amount of gasoline supplied from primary inventories during the year, but they are considered good indicators of consumption as well.

Distillate deliveries slumped 5.3% in 1982 while residual fuel oil deliveries plummeted 20.5%, API says.

Total products delivered were down 5.5% for the year. Following is API's recap for the year:

	(millions (b/d)		%
Products supplied	**1982**	**1981**	**Chng.**
Gasoline	6.5	6.6	(1.3)
Distillate	2.7	2.8	(5.3)
Residual	1.7	2.1	(20.5)
Total Prods.	15.2	16.1	(5.5)

In early 1982, gasoline deliveries surged ahead of the totals for the comparable period of 1981, leading many marketers to believe that a recovery was in progress. This flattened out, however, and deliveries in the month of December alone were down 6.0% from the year-ago levels.

Unleaded gasoline's share of the market rose only 3.3% in 1982, a much smaller growth rate than has been evident in recent years. API blames it on a "tepid economy that slowed new car sales in 1982 to the lowest level since 1961."

Imports of crude oil and products also declined in 1982, according to the API report. Crude oil imports were down 20.1% from 1981. "The degree of U.S. dependence on imports, which has been trending lower since 1979 . . . decreased from roughly 45% [of U.S. supply] to about 32% in 1982," notes API, offering these statistics:

	(millions b/d)		%
	1982	**1981**	**Chng.**
Total supply	15.7	16.5	(4.8)
Dom. crude prod.	8.7	8.6	1.0
Crude imports	3.3	4.1	(20.1)
Prod. imports	1.5	1.6	(3.9)

The increase in U.S. production is attributed mostly to the strength of the new Kuparuk River field in Alaska.

API reports that inventories fell sharply during the year, although supplies now are considered adequate for the demand expectations.

Gasoline in primary inventories stood at 38 days of supply on Dec. 31—at the high point of what API calls the normal range for that period.

Distillate fuel inventories were around 61 days of supply at the end of the year, also a "normal" point in light of reduced demand.

Motor Fuel Tax Hikes Get 37-State Review

Motorists could be hit with motor fuel tax increases from all directions this year.

A late January summary by the Highway Users Federation, a Washington-based organization, says at least 37 states will consider gasoline and diesel fuel tax hikes in 1983.

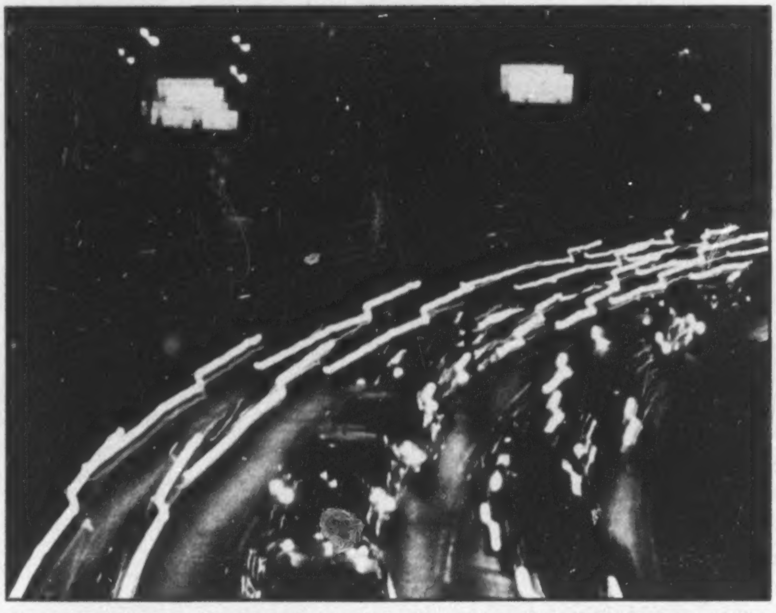
Of these, 16 previously raised their motor fuel taxes in 1981 or 1982.

The following states will be involved in tax legislation this year, according to the federation: Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Maine, Massachusetts, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Dakota, Texas, Utah, Vermont, Virginia, Washington, West Virginia and Wisconsin.

Currently, state motor fuel taxes range from a low of 5¢ gal. for gasoline and 6.5¢ gal. for diesel fuel in Texas, to a high of 14¢ on gasoline in New Hampshire and the District of Columbia, and 15¢ gal. on diesel in Iowa.

The average state tax on gasoline is 10.3¢ gal. and on diesel, 10.5¢ gal.

Over and above these state and local taxes, of course, is a federal tax of 4¢ gal., which will be increased to 9¢ gal. on April 1. That will escalate New Hampshire's total taxes on gasoline to 23¢ gal.



At least three-fourths of the states have pending legislation which would increase gasoline and diesel taxes. Sixteen of them hiked one or both of these taxes recently.

In most states, motor fuel taxes are assessed on a flat cents-per-gal. basis. Eleven states and the District of Columbia switched to a variable tax structure in recent years. In 1983 legislative sessions, 16 states now using the flat tax approach will consider changing to the variable formula. Of the states already using the variable formula, however, at least seven are planning to consider bills which may adjust the formulas to produce more revenue, or perhaps change back to the cents-per-gal. basis. These states are Indiana, Massachusetts, Nebraska, New Mexico, Ohio, Virginia and Washington.

Five states will take up bills affecting diesel fuel taxes. They are Indiana, Maine, Minnesota, North Dakota and South Dakota.

Seven states will consider sales taxes on motor fuel, either for the first time or for purposes of increasing them. These states are Alabama, Arkansas, Mississippi, Missouri, South Dakota, Washington and West Virginia.

Earnings Suffer Again In 1982 Market Pinch

Awash in a sea of sloppy markets, depressed prices, declining consumption and a soft economy, the big oil companies continued to make money in 1982 but not nearly as much or nearly so fast as in the late 1970s.

Minus signs, for the third or fourth year in a row, again dominated the fourth-quarter and full-year earnings reports. Only a few companies were on the plus side—notably Union and Atlantic Richfield in the heavyweight division and Tenneco and Diamond Shamrock down the line.

Cities Service Co., absorbed by Occidental Petroleum Corp. in the waning months of 1982, said its sales and earnings data were to be incorporated in the financial report of the new owner. It was not known whether Occidental would release all of Citgo's figures or just part of them.

Marathon, for the second year in a row, had no breakout available. It was taken over by U.S. Steel Corp. in 1981. The steelmaker did say, however, that Marathon racked up a pre-tax operating income of $1.23-billion and accounted for 51% of U.S. Steel's sales in 1982.

There were no reports available on Conoco, which was acquired by DuPont in 1981 in another historic merger.

Plus Signs Are Rare In '82 Earnings Reports

(In millions of $)

Company	4th Qtr. 1982	4th Qtr. 1981	% Chng.	Full Yr. 1982	Full Yr. 1981	% Chng.
Exxon	$1,480.0	$1,385.0	6.9%	$4,185.0	$4,826.0	(13.3)%
Mobil	282.0	587.0	(48.0)	1,380.0	2,433.0	(43.3)
Texaco	306.0	507.0	(39.6)	1,281.0	2,310.0	(44.5)
Stand. of Calif.	425.0	571.0	(25.6)	1,380.0	2,380.0	(42.0)
Stand. of Ind.	415.0	384.0	8.1	1,826.0	1,922.0	(5.0)
Gulf	226.0	301.0	(24.9)	900.0	1,230.0	(26.8)
Shell	438.0	458.0	(4.4)	1,610.0	1,700.0	(5.3)
Atl. Richfield	434.0	469.8	(7.6)	1,676.1	1,671.3	0.3
Stand. of Ohio	463.9	477.8	(2.9)	1,879.1	1,946.9	(3.5)
Sun	151.0	448.0	(66.3)	537.0	1,080.0	(50.3)
Phillips	154.6	186.5	(17.1)	645.9	879.4	(26.6)
Getty	172.7	216.5	(20.2)	691.6	856.9	(19.3)
Union	225.0	236.0	(4.7)	804.0	791.0	1.6
Amerada Hess	43.6	48.2	(9.5)	168.7	212.6	(20.6)
Cities Service (a)	—	—	—	—	—	—
Marathon (b)	—	—	—	—	—	—
Tenneco (c)	288.0	260.0	10.8	819.0	813.0	0.7
Ashland (d)	29.1	47.5	(38.7)	—	—	—
Kerr-McGee	73.5	66.0	11.4	209.8	211.1	(0.6)
Dia. Shamrock	46.2	59.7	(22.6)	185.1	121.3	52.6
Murphy	40.1	38.5	4.2	159.1	163.0	(2.4)
Amer. Petrofina	14.8	17.0	(12.9)	54.4	74.1	(26.6)
Quaker State	7.2	6.7	7.5	38.6	27.4	40.9
Pennzoil	50.5	54.8	(7.8)	188.7	221.6	(14.8)

(a) Merged into Occidental Petroleum late 1982 and unknown whether breakout figures will be available; (b) Merged into U.S. Steel Corp. and no breakout figures available; (c) Corporate report includes Tenneco Oil Co.; (d) First quarter, fiscal ends 9/30.

FTC Seeks Comment On Advertising Rules

Despite early indications that the Federal Trade Commission would move quickly to ease advertising restrictions for marketers using "games of chance" for promotional purposes, the FTC has decided instead on lengthy rulemaking procedures that will keep the current regulations in force for at least several more months.

The commission is considering a request by its staff to ease rules regarding ads for promotional games aired by television and radio stations. Because the current regulations require gasoline marketers to make long, detailed disclosures, broadcast advertisements are nearly impossible to condense into the standard 30- and 60-second formats.

In considering the proposed rule changes, the FTC will first seek public comments on whether the rules should be changed at all and then later will seek additional comments on the rule-change proposals themselves. That means final action won't come before mid-summer.

The proposals now before the FTC would exempt broadcast advertisements from the full disclosure rules and also would change record-keeping requirements by reducing the length of time such records must be kept from three years to one.

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Stores Still a Welcome Retail Addition But Investments Soar and Sales Lag

One of the hottest diversification trends ever to hit the gasoline and convenience store industries—the self-serve pumper/convenience store tie-in—is still one of the lowest-cost methods of doing business for both sides.

Despite the high investments required to get in either business today, marketers with such successful tie-in operations say they usually can cover their monthly operating costs with either gasoline or store revenues.

But getting into the C-store business for the first time today is not the piece of cake that it was five or 10 years ago. Some oil jobbers with C-store operations, in fact, warn the inexperienced person to be extremely cautious about joining the trend now.

The C-store industry, they say, is beginning to experience the same problems that have plagued gasoline marketing for the past two or three years. These problems include:

- **Growth slowdown.** After two decades of explosive growth, the rate of new store openings has decreased, while the rate of closings is rising.
- **Sagging sales.** Total sales inside all stores hit $23.2-billion in 1981, according to the National Assn. of Convenience Stores (NACS), up 13% from 1980. This was roughly half the average annual growth rate between 1977-1980. In addition some large gasoline marketers report current "in-store" sales are off from 5% to 25% compared to a year ago.
- **Soaring costs.** C-store chains and large gasoline marketers routinely spend from $350,000 up to $1-million or more on a new store these days. All operating costs are up. Many marketers are diversifying into fast foods and other lines, which increases equipment investments.

Some large-chain gasoline marketers with store operations believe the store business has become too expensive and sophisticated for small operators.

"I think we will see a shakeout in the store business similar to what we've seen in gasoline," says Truman Arnold, whose Arnold Distributing Co. operates a large chain under its Road Runner brand. "The older stores on secondary locations are in trouble."

Allure Still There

Other large gasoline marketers who have been in C-stores for some time say that in today's environment, they wouldn't want to enter the field for the first time.

Most of these marketers agree, however, that it is hard to beat a well-run C-store/self-serve gasoline operation when it comes to reducing the total cost of doing business. Arnold and other gasoline marketers say a good store operation can make a profit on total rack-to-retail gasoline margins in the 3¢ to 6¢ range. Few other methods of retailing gasoline can match such numbers.

"If I can encourage a gasoline marketer to get in the C-store business today at the right location, I've done him a favor," says Jack Griffith, Griffith Petroleum, Stillwater, Okla. "But if I encourage him to get in at the wrong location, I've done him a great disservice. You've got to be very careful about entering the store business today."

The C-store industry has changed a great deal since gasoline marketers began urging stores to sell their product.

A Changed Outlook

Gasoline marketers faced tough market conditions in their field somewhat similar to today's when they first began courting the store industry in the late 1960s and early 1970s.

But it was relatively inexpensive to put self-serve pumps in front of a C-store then, or to convert a service station into a store. In addition, the store industry was growing by leaps and bounds.

There were only 3,500 C-stores in the U.S. in the early 1960s, according to NACS. By the end of 1981, there were 38,000. Of this total, says the trade association, some 16,416 or 43.2% were selling gasoline. Other sources estimate there were 38,700 total stores last year, with roughly 46.7% of them marketing gasoline.

C-store gasoline sales, which were just a trickle in the early 1970s, have skyrocketed. In just a four-year span, from 1977 through 1980, NACS says total store and gasoline sales more than doubled, rising from $10.2-billion to $20.5-billion. Gasoline sales at C-stores in this four-year period jumped from $1.6-billion to $7.6-billion, a 375% increase, says NACS.

Some of the whopping increases in dollar sales for the C-store industry since 1977 reflect gasoline price increases. NACS reports that average per-store gasoline sales increased from 25,900 gal. month in 1977 to 36,500 gal. in 1981.

But even these averages are misleading. NACS didn't include stores with seven or more hoses in its calculations, and most of these are high-volume units. Many units with 10-12 hoses or more will pump 100,000 gal. or more per month.

By Marvin Reid
and Staff Writers

One gasoline marketer with a chain of nearly 100 stores including large gasoline pumpers reports that his per-store gasoline volume runs about 175,000 gal. month. Another marketer who puts more emphasis on store sales averages 60,000 gal. or better.

Soaring Investments

The possibility of capturing such high gasoline volume is spurring both C-store chains and gasoline marketers to build newer, fancier stores with expensive gasoline equipment.

In Memphis, Tenn., for example, some large store chains have been paying up to $300,000 for real estate locations, says Jack Malone, a large gasoline marketer who has steadfastly refused to get into large C-stores. Typically, he says, those chain-owners put 8-hose gasoline installations on such sites with a 2,000- to 2,400-sq.-ft. store.

Malone says he has seen brand-new stores in Memphis representing very high investments close their doors six months after opening. Willis Reed, a Beaumont, Tex., jobber, says he saw Southland Corp. close a new unit shortly after it was opened, only to move about two blocks away and build another in Texas' Rio Grande Valley.

Beaumont is another "over-saturated" C-store market where ambitious new building programs are underway. Southland reportedly plans to build approximately 21 new stores in this market. Local marketers estimate the units built so far represent total investments of about $400,000 for the store building and 8-hose gasoline equipment.

"You see this kind of building going on, although you also see lots of closed stores and hear of others being for sale," says Malone in Memphis. He notes one large chain has been trying to unload at least a dozen stores in Memphis.

Every situation is different. On the average, however, marketers generally say a C-store with gasoline today should pump at least 50,000 or 60,000 gal. while maintaining "inside" sales of $1,000 a day or better.

When gasoline marketing conditions somewhat similar to today's existed during the late 1960s, it was relatively easy and inexpensive to add self-serve gasoline pumps at C-stores. Some jobbers recall such installations for under $10,000.

Store owners and operators were willing to settle for a small commission or, at most, a split of the gasoline profits back then, also.

New Economics

A far different situation exists today.

The larger C-store chains generally prefer to purchase and install their own gasoline equipment now. Some 70% of all C-stores selling gasoline owned their equipment by the end of 1981, according to NACS, at average investments of $48,800 per new store.

NACS' survey also found that two-thirds of all stores selling gasoline were getting their fuel in 1981 from jobbers. Many chains, however, purchase their gasoline direct from refiners or other primary sources today.

Some jobber sources say a "split-the-profits" deal can still be cut with smaller store chains today. In some cases, the C-store even pays rent on the gasoline equipment.

In today's keenly competitive market conditions, however, jobbers with experience warn that it is easy to lose C-store customers to other gasoline sellers with lower prices.

Willis Reed, founder of Reed Distributing Co., a large multibrand jobbership in Beaumont, Tex., and Fred Hackler, president of Mini-Serve, Inc., [see p. 48] say they still make commission or split-margin deals. But before they will put in $45,000 or so of gasoline equipment, they insist on a 15 year contract with two, five-year options.

Ralph Watson, a Marshall, Tex., Exxon jobber [see p. 72], says he now puts in gasoline equipment on rental-purchase option agreements. If the C-store operator decides that he wants to switch gasoline suppliers, he must buy Watson's equipment.

"You need strong agreements in today's market," says Reed. "Some Texas jobbers who haven't had them have lost most of their business almost overnight."

Fast Foods Move In

Large store chains now are heavily involved in fast-food and deli operations. NACS reports average gross margins from such activity are around 40%, compared to 20% for conventional C-store lines.

The average fast-food equipment investment for a new $343,000 convenience store in 1981 was $7,200, according to the report.

Gasoline marketers with several years of C-store experience have moved into fast-foods, too, but they urge other jobbers to be especially cautious about doing so. Pioneers in both C-stores and delicatessens, like Tom Love of Oklahoma City [see p. 68], say the two are separate businesses with separate problems.

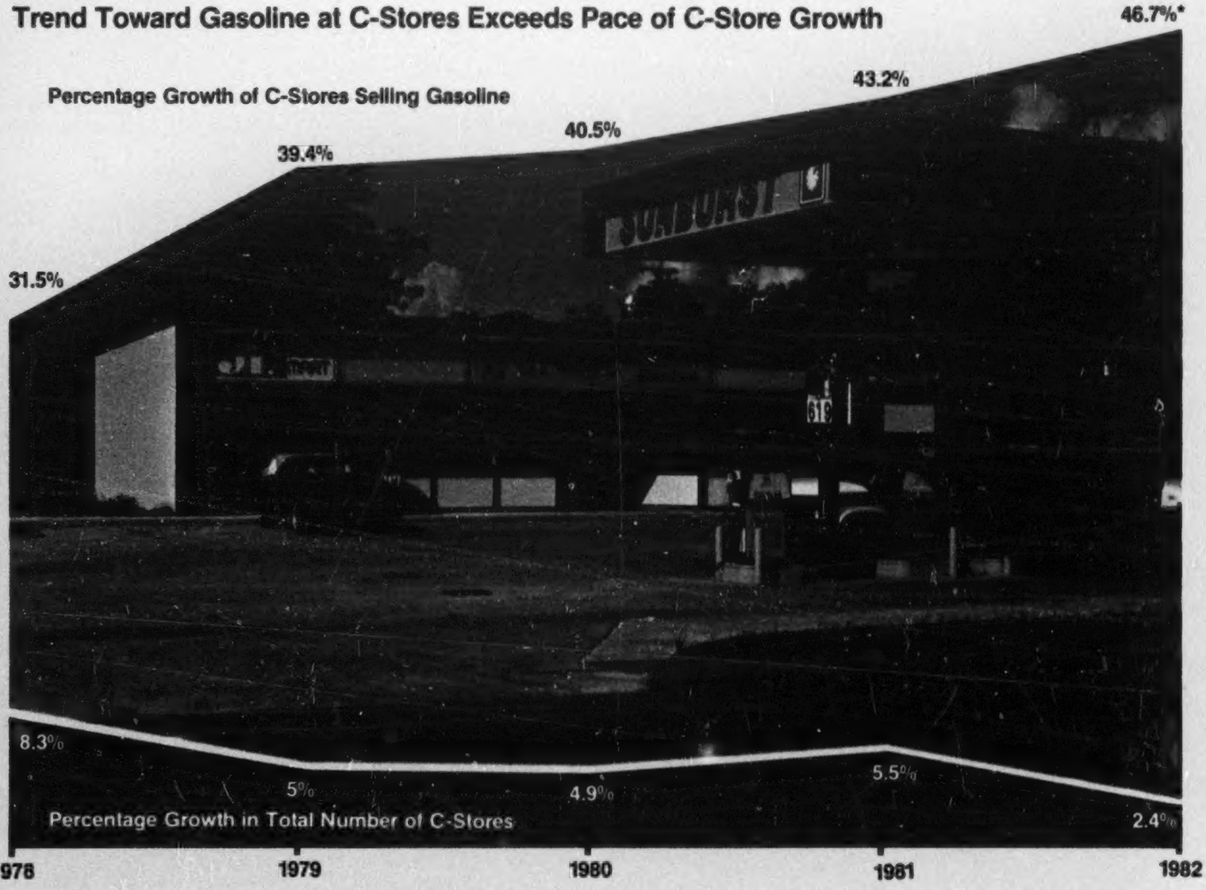
If a jobber does decide to get in the C-store business today, two large gasoline and store operators say they could see sales as slow "inside" as "outside" on the pump islands.

"Our store sales are off in the range of 12% to 15%," says Fred Hackler, president of Mini-Serve Inc., Beaumont, Tex. "I think the store business today is just as tough as the 'gas' business. You better know what you are doing before you launch into C-stores today."

NACS is still bullish about the industry it represents. It says U.S. demographic and geographic trends all add to continued growth. "Conservative estimates are that the industry will double in size over the next 10 years," it says.

There are indications, however, that the robust growth may be slowing down.

Trend Toward Gasoline at C-Stores Exceeds Pace of C-Store Growth



*Estimate, projected from part-year data from top 11 publicly-owned convenience chains as reported in the 12th Dollars-per-Day Survey, John F. Roscoe.
Source: National Assn. of Convenience Stores

April, 1988 $4.00

How a Small-Town Jobber Makes Big Profits

Why Beacon Oil Sells Tires By Telephone

More Alternate-Use Ideas for Old Stations

NPN

National Petroleum News

A PUBLICATION FOR MARKETING MANAGEMENT • OPERATIONS • FUEL OIL • TBA/AFTERMARKET

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The Majors

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NATIONAL PETROLEUM NEWS

APRIL 1983 VOL. 75 NO. 4

20 Regional News

20 **South**
Oklahoma repeals its gasohol tax break; Where will all the state's alcohol go?

21 **West Coast**
Arco doing deals with small refiners to supply its growing share of the market

22 **East Coast**
Charter renews march along the coast

24 **Rockies**
Excess product, not local factors to blame for marketplace malaise

25 **Midwest**
Kansas ethanol marketer to ship its blended gasohol by pipeline

27 General News

27 OPEC's ordeal might give marketers benefits now, but indirect problems later
28 Supplier summit in Houston fails to satisfy marketers
29 Arco and NOJC trade jabs in Washington over pricing
31 Lundberg requests conference
32 Maryland divorcement law rapped as "anti-competitive"
32 Divorcement proposals hit congressmen's desks, but will remain idle while other bills clear
32 Apex spurns Corco plant, Sun bidding $22-million
33 Mobil jobbers take out ad and take out frustrations
33 Give us our refunds, marketers tell politicians

36 Features

36 **Cover Report**
The majors brush up their public image
- Texaco unwinds its grand redesign
- What new forms old stations take . . .
- Why those stations lure other business

42 **Diversification**
Family advice helps jobber grow, despite small, competitive market

44 **TBA/Aftermarket**
Beacon Oil reveals tires sales secret: a couple of guys working the phones

46 **Commentary**
Answers to jobber/supplier friction to come from tolerance and patience—C. O. "Scotty" MacLeod

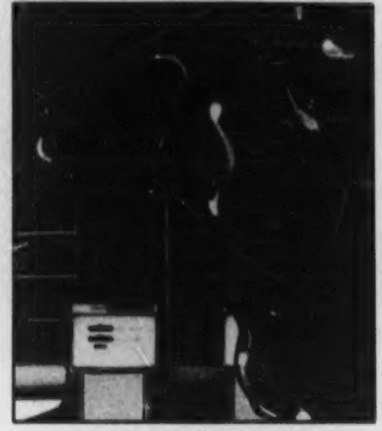
48 **Operations & Equipment**
Stage II could surface soon in six states

61 **Legal—Sam Borenkind**
Dealer can be ousted because of crime

62 **Tax—Irving Blackman**
Your corporation is not a private bank

Departments

63 About Oil People
9 Ahead of the News
11 Catching Up
66 Classified
60 Coming Meetings
50 C-Store Briefs
10 Late News
19 Letters
5 Looking Things Over
64 News Notes
49 O & E Briefs
58 Product Briefs
54 TBA Briefs
12 Trends/Marketplace



Even without all the "discount for cash" and "honor all cards" promotions, motorists in many large cities should be getting the message that major oil companies are eager for their business again. The majors are revising and refining their station images to give them a retail presence that will attract and maintain more gasoline customers. Page 36.

Cover illustration by Marcus Design, Inc.

Early indications are suggesting that there could be short-term benefits and long-term problems for oil marketing from the international crude oil price war. Page 27.

Beacon Oil Co. of Hanford, Calif., would have shown a decline in its tire revenues in 1982 if not for "telemarketing." Instead, the independent refiner/marketer had record tire sales of $3.7-million, and an increase of a half-million dollars over 1981. Page 44.

• TRENDS

As Federal Deficits Loom, So Does Crude Import Tax

Like the old saw about counting chickens before they're hatched, it may be too soon for marketers to start counting on plummeting crude oil prices to start showing up at terminal racks.

True, crude prices are falling and may continue to fall. But jobbers dealers and consumers aren't the only ones who realize what is going on. The Reagan administration and Congress—strapped with a huge budget deficit—also have their eye on crude markets. In Washington, there is a growing feeling that some of the savings stemming from lower crude prices will be steered directly into the federal treasury.

It wouldn't be hard to do. All that's needed is a modest tax on imported crude oil. About $5 bbl. is the current figure in the Washington rumor mill. The revenues from such a tax would barely be noticed on the street, where prices probably would hold steady or merely fall less quickly than predicted. On the other hand, the tax's effect on the federal budget deficit would show up clearly and quickly.

Given the current tax structure, the downward trend in crude prices has noticeably hurt government revenues. Martin Feldstein, the chief White House economic advisor offered another temptation to raise oil taxes by pointing out that each $1 bbl. drop in the price of oil adds as much as $1-billion to the federal deficit. The addition to the deficit results from reduced collections from the windfall profits tax, which is based on a percentage of selling price.

Asked about the possibility of an oil tax increase, Feldstein said "I wouldn't rule out any kind of change (in energy tax policies) at this point."

It is no secret that President Ronald Reagan, despite a general anti-taxation posture, would welcome a new source of revenue. It's also clear that an energy tax is not viewed by the White House with the same distaste as is an income tax hike. In his State of the Union message, the president called for a $5 bbl. crude oil tax as part of the so-called "trigger tax" that would go into effect if the budget deficit hasn't reached manageable levels by 1985.

The trigger tax isn't very popular on Capitol Hill and isn't likely to be passed by Congress. A straightforward tax—perhaps limited to imported crude—might be far more attractive. There are quite a few arguments that could be employed in defense of such a tax. Some would be tough to argue against, in fact.

First, there is a conservation argument. The reasoning might be something like this: High pump prices are the most effective way to foster continued conservation of limited energy resources. If prices are allowed to fall, consumption will increase and the nation may find itself once again in the grip of foreign oil-producing countries. Also, if oil becomes less expensive, increased consumption will cause additional environmental pollution.

There also is an economic argument. Higher gasoline prices have influenced the plans of the U.S. auto industry. Falling gasoline prices won't help sales of the small fuel-efficient cars that Detroit is banking on to revive the ailing automakers. If car buyers once again change their mind and begin looking for larger vehicles, there may be more layoffs in the auto and related industries.

Would the major integrated oil companies be against such an import tax? Some undoubtedly would—those that import large quantities of crude. Their competitors with large domestic reserves, which would not be subject to the tax, might not be so eager to do battle, however. A surcharge added to imported crude would help them maintain prices. What would be a tax to some producers would be a windfall profit for others.

Is the tax at all likely? Much will depend on where (or if) prices stabilize. The easier it becomes for those backing the tax to convince lawmakers that it will be painless, the more likely the tax becomes. Sources at the White House Office of Management and the Budget (OMB) say that office is getting a crude tax proposal ready in case the White House wants one. The House Ways and Means Committee and the Senate Finance Committee also are exploring the idea, sources say.

Crude oil taxes, especially taxes on imports, haven't been popular in the past, but it may be that this time, the time is ripe.

—Tom Goldsmith

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

JANUARY	Gasoline (All types)	Leaded Regular	Unleaded Regular	Leaded Premium
U.S. City Avg.	$1.213	$1.146	$1.228	$1.353
Regions:				
Northeast	1.258	1.196	1.258	NA
North Central	1.220	1.173	1.240	NA
South	1.196	1.125	1.209	NA
West	1.188	1.102	1.206	1.356

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	2/25/83	2/26/82
Gasoline (total)	249,989	255,175
Gasoline (unleaded*)	99,916	100,136
Kerosine **	33,148	30,483
Distillates	148,024	143,554
Residual	54,452	63,855

**Included in gasoline total.*

***Jet kero only; totals no longer kept by API and DOE.*

Source: American Petroleum Institute.

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Even without all the "discount for cash" and "honor all cards" promotions, motorists in many large cities should be getting the message that major oil companies are eager for their business again.

The majors are revising and refining their station images to give them a retail presence that will attract and maintain more gasoline consumers. Companies are changing their logo styles and color combinations; emphasizing dealer training and uniforms; rehabilitating stations they plan to keep in operation; and, in a few cases, building expensive new retail facilities.

Since the early 1970s, most large oil companies have put more effort into divesting themselves of surplus service stations than in building new ones. But even as they continue to board up or sell off many older stations, the large companies today are turning their attention toward developing retail networks that have eye-appeal.

Such activity is especially noticeable in large metropolitan centers of the sunbelt states. Some majors, however, have five- or six-year, multi-million dollar programs underway which eventually will give their entire retail networks a new look.

Even top corporate executives say the reason for this burst of activity since decontrol in early 1981 is simple.

"We didn't have to be marketers in the 1970s," Gulf Oil's chairman James E. Lee tells his downstream people. "We have to learn to sell again. We have to entice the customer to use our product. We've got to be better than the competition."

Managers of most companies obviously believe they must have first-class retail facilities to lure customers onto their driveways, even if this means knocking out still more stations built 20 or 30 years ago.

Independent marketers and convenience store chains took a healthy slice of the majors' market share during the 1970s when federal controls tended to hamstring big companies more than little ones in building new stations.

"We got a jump on them with our building programs because we often ignored the regulations," admits an independent. "Some independents and convenience store chains have the best-looking retail facilities on the street today. But we see signs that the majors are waking up. And, they have the bankrolls to regain their image."

Search for New Identity

Several companies, indeed, have committed fairly large sums toward modernizing older facilities and building new ones. While the majority are guarded in revealing much about their programs, each exec talks about striving for a fresh image to fit the 1980s. In the same breath, they mention a need for greater efficiency and volume.

Gulf Oil's senior marketing vice-president, Ronald E. Hall dropped a tiny bombshell recently by saying his company will reduce its marketing costs 50¢ bbl. over the next five years, while maintaining about the same retail market share it had in 1982.

As part of its cost-reduction program, Gulf will divest itself of some 3,400 direct-supplied stations, reducing the number to 2,000. But, says Hall, the company's objective is to increase average station volumes by 55-60% for company-owned and operated outlets; 100% for "assured" dealers, and 150% for contract dealers.

The company is building "selectively" in high-growth metropolitan areas and is already "very near our targeted levels in such key markets as Dallas, Houston, New Orleans and Atlanta," says Hall.

Gulf came out with a new logo and color package in 1981 to brighten up the appearance of its stations.

Other majors are also reducing their number of owned or "investment" stations while simultaneously trying to increase throughput and efficiency of those they plan to retail or build.

Shell Oil, for example, divested itself of 3,300 owned stations from 1975 through 1982, while constructing 182 new units designed for high-volume operations. In 1982, alone, Shell reports it got rid of 600 investment outlets. The company says its objective is to relinquish the "older, outmoded stations" while increasing individual unit throughput with a smaller number.

Exxon USA publicly revealed in late 1981 that it was embarking on a $100-million modernization program that would result in 1,000 new or revamped stations over a five- to six-year period [NPN—Nov. '81 p27].

Other majors, while they won't be too specific for "proprietary" reasons, have been just as active in weeding out other stations while sprucing up those left. Amoco, which reduced its number of branded stations (including jobber outlets) by some 3,300 between 1977 and 1981, began a multi-million dollar "revival" program in late 1981 described as an "image" enhancement program."

What oil companies spend to stamp their names on public broadcasts . . .

	In millions*
Exxon Corp.	$5.5
Mobil Corp.	4.5
Chevron USA	3.5
Gulf Oil Corp.	1.9
Atlantic Richfield Co.	1.8
Shell Cos. Foundation	1.3
Sun Co.	1.2
Texaco	1.2

** These figures represent underwriting (production costs) alone. In addition, companies each spent on program promotion anywhere from half to 1½ times the amount they spent on underwriting itself.*

Source: Public Broadcasting Service

The Competitive Edge

Of the major company efforts to streamline their operations and improve their "street image," however, Texaco's is a real standout.

Texaco probably has been doing more culling out of old stations, more market retrenchment, more building of new facilities, and more revamping of stations than has any other company since federal controls were lifted.

The company also, for the first time since 1937, has designed a completely new identification symbol for its marketing operations.

In the early 1970s, Texaco had 11,000 investment stations and had its brand up in all 50 states. By last August, it had trimmed its investment outlets down to 3,300, and is planning to further reduce this number to 3,000 "modern, high-volume" units.

Amoco's 'Allstar' campaign, which includes discount-for-cash and other programs, is pitched to its resellers as 'image leadership,' and now covers jobbers as well as dealers.

Amoco
All★
Amoco Premium
Amoco Regular

In November, 1981, when it still had 3,600 investment stations, the per-unit average gallonage was 34,000 gal. a month compared to 28,000 in 1979. Texaco is shooting for a 52,000 gal. a month average by the time it reduces its total number to 3,000 units.

The company has now completed its program of getting out of all or parts of 19 states in the northern Rockies, Midwest, and certain Great Lakes areas, and is consolidating its marketing operations in the Northeast, Southeast, Southwest and West Coast.

Texaco had completed 54 new-design stations in May 1982, and had plans at that time to open 102 more, according to James W. Kinnear, executive vice president.

Of all its activity since the late 1970s, however, Texaco's multi-million dollar redesign program is especially noteworthy. The company believes this program has enhanced its national image in the minds of motorists and makes its retail outlets stand out against today's competition.

It thinks the new design gives its retailers "the competitive edge" in today's tough markets.

Pushing That Image

Other majors likely would dispute Texaco's claims to having an image edge with its dramatic design changes. In addition to polishing up their facilities, the majority once again are emphasizing such things as cleanliness and well-trained attendants.

Amoco has what it calls an "Allstar Marketing Strategy" which embodies various dealer service and image awareness. Amoco describes the program as being a consumer-oriented marketing strategy.

Participating dealers will be evaluated four times this year to qualify for "Allstar Excellence Awards." Amoco says this is the foundation of a five-year "image leadership program" which will bring a consistent, uniform customer-drawing look to more than 5,000 of its stations by 1985.

Chevron USA, long recognized as an image leader on the West Coast, has been fine-tuning its "Hallmark Award" program for dealers. Those who meet or exceed various criteria get their stations identified as meeting the highest standards in customer service and appearance.

Shell has a "Top Performer" image program with prizes that included a collection of silver-plated awards, clocks and gold rings. Awards are made quarterly and annually, with some station evaluations performed by sales teams other than those normally responsible for a retailer's territory.

Shell regularly publicizes retailers who it describes as "Shell Image Makers" in company publications. Similar to most other majors, it also has incentive programs for dealers to buy and sell TBA and other products. Direct dealers this year can earn such things as a free trip to Hawaii.

Sales districts of most companies are encouraged to push image programs. Gulf's New England district has conducted a station appearance contest for the past three years. Winning dealers and their spouses are invited to a special lobster banquet and awards presentation ceremony.

Yes, Big Is Better

As they do their selective building of new retail outlets for today's market, the majors generally are making considerable changes in their designs in order to recognize such things as the self-service and convenience store influence.

Texaco has what it calls a "family-of-buildings" concept involving separate prefabricated modules for C-stores, car washes, "gas" bars, auto service centers, and so forth.

Exxon now groups its pumps under a free-standing canopy similar to independent self-serve pumpers, and puts a central kiosk at some of them. Where office space and service bays were once part of an integral unit, new designs provide more of a physical separation.

"The sale of gasoline and the servicing of cars are really two distinct businesses," explains Jack Sallman, Exxon's retail practices coordinator. He believes the new design helps dealers run each part of the two businesses more efficiently.

Although Shell continues to emphasize its "Auto Care" program involving more than 1,900 stations, it has been out front in building self-serve, "gasoline-only" outlets designed for high volume. Over a five-year period ending late last year, it had built or rebuilt 250 stations, with 98% of these being the high-volume type.

Most companies mention changing customer patterns as they change their station designs and approach to marketing. Today's younger generation, several execs say, is especially attuned to self-service and the skyrocketing gasoline prices of the 1970s which have made most people price-conscious.

As they build and modernize for today's market, most majors have increased substantially their per-unit gallonage goals. Some majors' executives venture to say that any station pumping under 50,000 gal. today is a borderline unit. One large major reportedly plans to divest itself of all outlets that fall under that level in the Southeast over the next three years. If so, this means it plans to dispose of about one-third of its present total in that region.

Shell says that one of its high-volume investment stations of the type it has been building for the past five years must move 150,000 to 250,000 gal. a month to "justify its existence." Other majors talk of minimum requirements of 100,000 gal. for their direct-operated pumpers.

Station Fallout Continuing

The present spurt in major company building and revamping activity follows a huge fallout of retail service stations in the 1970s. While the deactivation pace recently has slowed slightly, the present emphasis on more modern facilities is bound to take a further toll on older units that are not revamped.

Since 1972, when the total count of service stations peaked at 226,500, more than 81,000 have disappeared, according to the Bureau of Industrial Economics of the U.S. Commerce Department. [NPN— Feb. p27] This agency puts the 1982 station census at 144,690 units, and projects the total number will drop to 139,250 by the end of this year.

Among the majors, 28 deactivated at least 50,882 stations between 1972 and 1981, while building slightly less than 5,000 new outlets, according to the American Petroleum Institute. (These figures aren't exact, API explains, because five of the companies in 1974 and three in 1975 didn't respond to its survey.)

While the pace of station closures may be slowing down, the companies seems to be as anxious as ever to sell off retail properties. Gulf, for example, in its present push to trim its marketing costs, is offering surplus outlets to dealers, jobbers, and others.

Jobbers and independents say they often find pretty good buys from major company divestment lists. Some marketers say, however, that the companies generally continue to insist on "fair market value," especially for the land a station is on.

"I think they will come off this," says one jobber who was once on a major company's marketing staff. "A lot of the stations they are trying to sell off today were built 20 years ago. They have long since paid out."

Another jobber, however, says he doesn't mind paying the price determined by a current land appraisal on a station, if the cost fits his operation plans. But he does do a lot of hard negotiating on facilities.

To be sure, there will continue to be quite a few properties on the market, most sources agree, as the majors continue to "surplus" stations in their drive for an enhanced image and improved efficiency with their retail networks.

Texaco Unwinds Its Grand Redesign

Texaco, a company which steadfastly stuck to conventional service stations longer than most majors, is now making the biggest changes in its retail facilities and designs in 40 years.

Company executives, in fact, say they no longer refer to their retail outlets as "service stations."

The company adopted a "family-of-buildings" architectural concept in 1980 to help it design retail outlets for self-service gasoline and convenience store customers.

Since then, it has changed its station colors and logo in a multi-million dollar redesign program that will take several years to complete.

The total program is the largest design change for Texaco in 40 years.

"For the first time since 1937 when we came out with the green and white design for stations with spin-off designs for products, advertising, and uniforms, we have designed a complete identification system for Texaco marketing," says Walter Villars, manager of real estate.

That green and white style made Texaco stations among "the most recognized in the country" through the 1940s and 1950s, he adds. "Millions of motorists associated our stations with quality products and services that they could depend upon."

Between the 1950s and 1980s, Texaco experimented with various types of retail outlets and color schemes. These colors "earth tones"—were abandoned when it settled on its current graphics.

Today, Texaco's colors are red, black, white and gray for buildings, canopies, and signs. Computerized pumps are labeled with generic product names. One outlet may be a C-store with self-serve gasoline pumps while another may be primarily a self-serve pumper.

Whatever type outlet, everything from buildings to pump toppers is designed as a total package. The company also plans to adapt the new design to advertising, uniforms, and product packaging.

Why change something that was once so recognizable?

"To give customers what they want," says Villars. "Today they want the convenience of self-serve, of C-stores, and car washes in retail facilities. There will always be a place for the traditional ser-

C-Store Briefs

Study Data Show What Items Move Fastest and Why

The hottest profit items inside the nation's convenience stores are led by fountain drinks, fast foods, bakery goods, candy and snacks, in that order, according to a recent study.

The McKinsey study on consumer buying habits was based on customer surveys of more than 13,000 people in 12 major markets. The report, commissioned by Frito-Lay, covers 199 major product types in more than 2,000 C-stores nationwide.

The report says consumers have become more sensitive to C-stores' traditionally higher prices, and the number of convenience customers is dropping. "While fountain drinks, fast foods and other new categories have helped raise the average number of transactions by 19% since 1970, total store performance has remained flat," the study says.

The report says 90% of C-store sales come from regular customers, and that 60% of store customers shop in the store three to five times a week or more.

To boost the number of regular customers, the study suggests new promotion and merchandising techniques and an attractive shopping environment. Specifically, the research shows:

- Most snacks should be displayed in an aisle adjacent to the cooler. The study assumes customers might be prompted to wash down their chips with a soft drink.
- Controlled store tests show that at least 12 feet should be allotted for the snack section to display the proper variety of brands and to prevent costly stockouts.
- Small bagged snacks should be displayed at the end of this primary snack section to encourage impulse buying.
- The study says three to five displays of single serve snack items will help increase impulse buying. Sixty-nine percent of snack purchases of this type were bought on an impulse.
- Single-serve snack displays should be placed in high traffic areas near related items. Twenty-one percent of fast food customers also purchase single-serve snacks. And, 13% of the single-serve soft drink customers purchase single-serve snacks. Almost all single-serve snack purchases are part of another sale.
- Special displays dramatically increase the effectiveness of snack promotions, the survey concludes.

7-Eleven Stores Cut Robbery Losses 55%

Common sense, employee training and a tight cash-control system have enabled Southland Corp.'s 7-Eleven convenience stores to record a 55% decrease in burglaries since 1976.

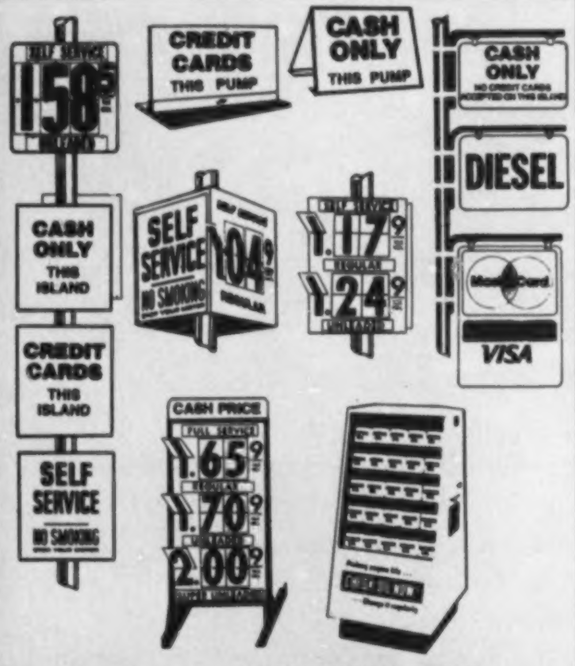
The company said it experienced a 25% decrease in robberies in 1982 alone. Southland has 7,615 retail stores, most of which sell gasoline and oil products.

Bob Buhrig, corporate security manager, says Southland's first goal is the safety of its employees and franchisees.

"All new store personnel are educated about how to prevent robberies, avoid violence and increase their own personal safety," he says.

"Training is constantly reinforced through storage signage, seminars and publications," he adds.

Reducing the amount of cash in the registers has had a tremendous effect on cutting robberies. Excess cash and big bills are deposited in a device beneath the counter which locks them up and limits access to preset intervals. The average cash loss in a C-store robbery now, he said, has been reduced 66% to around $45.



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Southland Aims High with Bid for Citgo
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Charter Oil Resumes Expansionary Role

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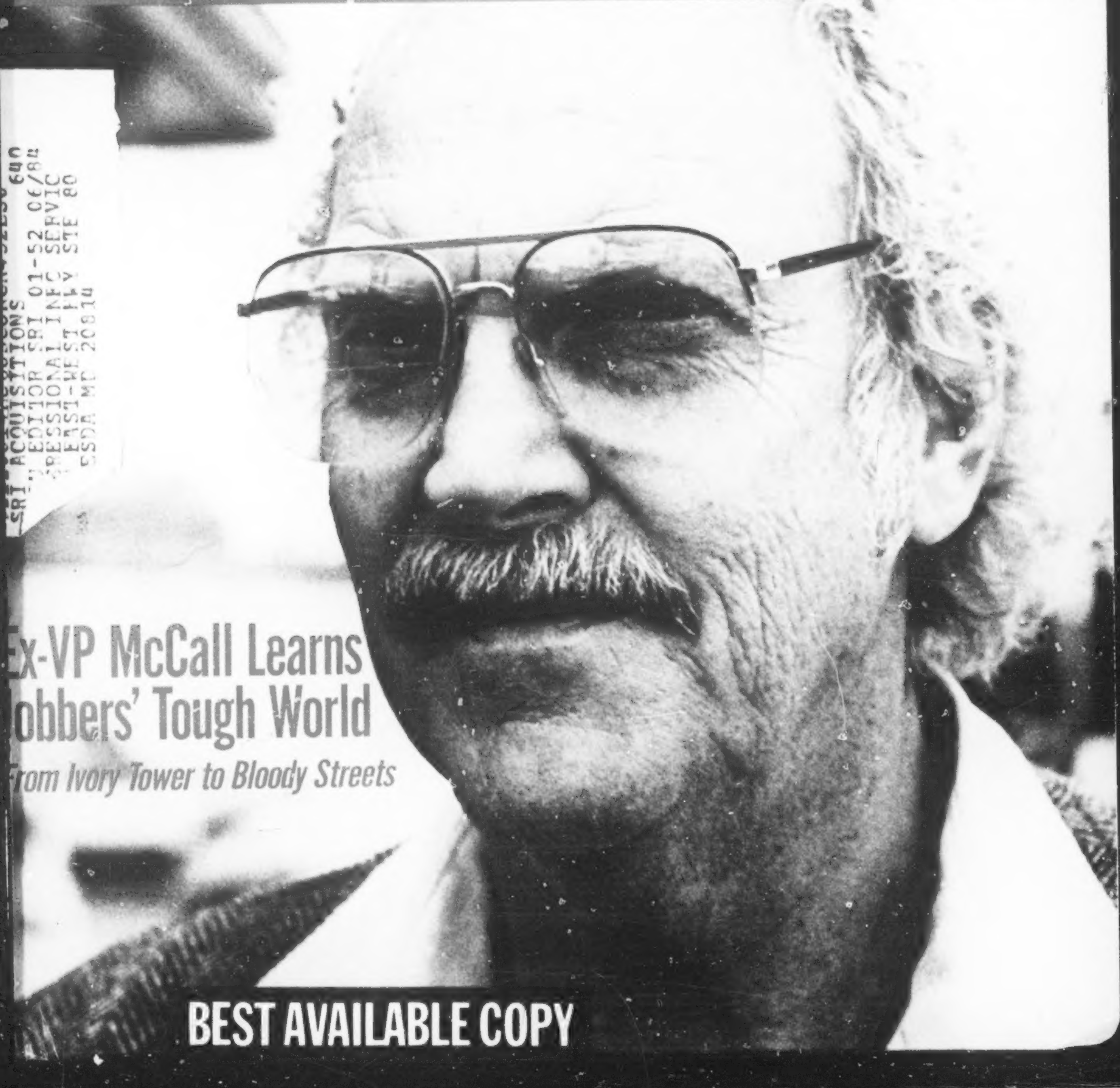

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Ex-VP McCall Learns obbers' Tough World

From Ivory Tower to Bloody Streets

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NATIONAL PETROLEUM NEWS

MAY 1983

VOL. 75 NO. 5

22 Regional News

22 **West Coast**
Majors combatting Arco in Northwest find no 'restoration' in a 3¢ increase

23 **Midwest**
Is Michigan's ethanol tax exemption unwittingly encouraging tax evasion?

24 **South**
Dealers in New Mexico drop gauntlet; suppliers arm for open supply fight

26 **Rockies**
Drilling 'bust' and natural gas fate hurting area jobbers in several ways

27 **East Coast**
First Northeast, then Pittston sold; fuel oil changeth in New England

29 General News

29 Cities deal advances Southland's and Oxy's goals, but jobbers await Citgo's imminent changes

30 Farm fuel demand might drop, due to USDA crop swap offer

32 Industry woes shut down 57 refineries in '82

33 Rasheed says divorcement heating up

33 West Coast refineries change hands . . . finally

34 SIGMA study shows bay and pump services on upswing

34 Crude futures launched at two trading houses

34 Gas decontrol stalled; political lines drawn

35 August to spotlight fuel oil

35 Amoco joins the exodus from upstate New York

38 Features

38 **Cover Report**
Ex-VP McCall learns jobbers' tough world
- Spurning easy street for bloody ones
- McCall scrutinizes several companies

45 **Operations & Equipment**
EPA's fuel-switch fines in Chicago: Are they just the tip of the iceberg?

47 **Management**
How Charter's growth beat the odds

51 **TBA/Aftermarket**
Cheap fuel selling big cars: Chrysler

65 **Legal—Sam Borenkind**
Supply Nonrenewal Papers, Avoid Suits

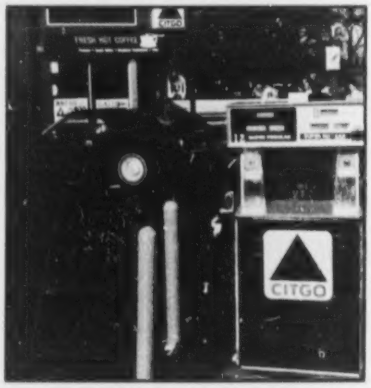
66 **Tax—Irving Blackman**
Relearn How to Deal With Boom Times—They Could Be Just Around the Corner

Departments

67 About Oil People
11 Ahead of the News
15 Catching Up
69 Classified
64 Coming Meetings
50 C-Store Briefs
12 Late News
8 Letters
5 Looking Things Over
68 News Notes
55 O & E Briefs
61 Product Briefs
57 TBA Briefs
16 Trends/Marketplace

There are times late at night—as he hovers over an Apple computer in his San Antonio, Texas, home—when Bruce McCall must wonder if it was smart to give up his plush life as a major company executive to become an oil jobber. Page 38.

Cover photograph by Marvin Reid



Lots of unanswered questions hung in the air in early April after Southland Corp. revealed plans to purchase Cities Service's marketing and refining properties from Occidental. To be sure, however, the deal would change Southland's entire company profile and present a formidable new player in the oil marketing arena. **Page 29.**

For several months last year, a few Chicago dealers weren't getting what they paid for. After the Environmental Protection Agency got wind of it and investigated, the agency levied more than $5-million in fines on 17 marketers. Similar probes might follow. **Page 45.**

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• TRENDS

Southland/Citgo Will Invite Subsidization, Jobbers Say

Southland Corp.'s plan to purchase Cities Service's oil refining and marketing properties from Occidental Petroleum (see p.29) seems destined to increase the trend toward direct retail operations by both convenience store chains and oil companies.

And, as the chains and companies put increased emphasis on this method of marketing gasoline, arguments over how they figure their "true costs" are likely to intensify.

"Jobbers, by and large, argue that the oil companies use some rather loose accounting methods in figuring what it costs them to retail gasoline through their own facilities with salaried or commission help. Most jobbers also suspect that large C-store chains pay little attention to the total actual costs involved in their gasoline operations.

Many oil company executives, on the other hand, apparently believe they can retail gasoline at less expense through their own facilities in high-density metropolitan markets than they can through jobbers.

If Southland's planned acquisition of the Cities Service properties goes through, the transaction is bound to add more fuel to the fires of this dispute. Gasoline is already very big business for Southland, and the Cities acquisition would make it much larger.

Southland is currently selling about 100-million gal. of gasoline per month through 40% of its 7,300 7-Eleven stores. Some competitors say they doubt whether Southland cares whether it makes that much profit off gasoline; it just wants to keep the pumps pumping and the cash flowing. If retail prices are just $1 gal., the 7-Eleven pumps are generating $100-million in sales every month.

Other competitors claim to have "first-hand" knowledge that Southland wants to net at least 2¢ gal. from its gasoline sales. But whatever the company's targets, some competitors say they doubt the company charges all gasoline operating costs to gasoline.

Similar suspicions are voiced by jobbers about some major company retail operations. For instance, say some jobbers, certain majors do not include the investments they have in a retail location as part of its operating expense. Most independent jobbers say they include such investments and everything else in figuring their rate of return from a property.

A person who has first-hand experience of major company and jobber operations says there is no way a major can operate direct at retail "for less than 8¢ gal., even on their larger economy of scale." Any major trying to market for less than 8¢ gal., says this veteran, "is losing its a-- in marketing," but funny bookkeeping "covers up the losses."

Some gasoline marketers believe the C-store chains such as Southland are making investments today which have to be increasing their "true" gasoline selling costs. In some instances, their new stores are believed to range from $600,000 to $700,000 in per-unit costs.

"These C-store chains have been on a roll, just like the oil companies were in the 1950s and 1960s, but this is going to catch up with them," says one marketer. "They are moving from secondary to primary locations now at a much greater cost. If they really start putting the pencil to some of the things they are doing, they'll start backing off."

But maybe not.

The C-store people have learned what oil marketers have long known—there is no other business quite like gasoline for generating cash flow. If Southland's proposal to acquire the Cities Service properties is finalized, it could wind up with its retail pumps churning out double or more the $100-million or so in monthly gasoline sales that it how has.

With that much money flowing through its cash registers from the pump islands, Southland's management has no reason to be concerned over what others may think of its gasoline marketing operations. There are some gasoline marketers, however, who believe Southland and other large C-store chains have very low-cost operations.

Meanwhile, the oil companies which have staked out metropolitan markets as their preserves may be a bit more sensitive to jobber charges of "subsidized" retail operations. But they are going right ahead nevertheless, with their building and expanding.

In almost any metropolitan market of more than 250,000 nowadays, the jobbers find their toughest competition comes from the majors or convenience store chains, or both. This trend isn't likely to change for awhile.

—Marvin Reid

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

FEBRUARY	Gasoline (All types)	Leaded Regular	Unleaded Regular	Leaded Premium
U.S. City Avg.	$1.170	$1.099	$1.187	$1.318
Regions:				
Northeast	1.222	1.160	1.221	NA
North Central	1.181	1.131	1.202	NA
South	1.151	1.077	1.169	NA
West	1.135	1.042	1.156	1.324

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	3/25/83	3/26/82
Gasoline (total)	236,129	250,362
Gasoline (unleaded*)	96,387	97,841
Kerosine **	33,244	34,579
Distillates	130,282	124,599
Residual	45,616	58,091

**Included in gasoline total.*

***Jet kero only; totals no longer kept by API and DOE.*

Source: American Petroleum Institute.

$360-million. And, it has been widely known that Southland had been in the market for refining properties.

There was some head-scratching, however, over this particular match-up of buyer and seller.

Southland was slow getting in the gasoline business in the 1970s when other C-store chains began adding self-serve pumps at their stores. Since making a commitment during the mid-1970s, however, the company has been one of the more aggressive gasoline retailers.

This bothers some marketers as they consider the size of Southland after the proposed acquisition of Cities. Last year, Southland had moved from the nation's eighth-largest unintegrated gasoline retailer to the number one spot. And, Southland's talk of getting product produced from cheaper heavy crude to the street bothers its competition, too.

Occidental's Dr. Hammer says Southland with its own refinery and some 4,000 or more retail outlets (its gasoline selling stores plus Citgo outlets) will be "one of the most successful downstream operations" in the industry.

Such statements reinforce apprehension among Cities Service's jobbers as to where they will fit in the new scheme of things. In addition, jobbers as a whole are concerned about the doubling of Southland's size in the gasoline business.

Jobbers Told 'Citgo' Safe

Southland assured some jobbers right after the proposed acquisition was announced that it will maintain the Citgo brand.

"They say they will maintain the brand, and I really feel like everybody will be better off over the long run," said Roy Mason, a large Citgo jobber in the Southeast. "Southland is a very progressive marketer. They don't know oil refining or oil marketing, but they know enough about marketing to understand our problems. I think we'll be better off because Occidental didn't want us," he says.

"Some of our members have already expressed concern about what Southland might do at retail," said Phillip Chisholm, executive director of the National Oil Jobbers Council, two days after the proposed acquisition was announced. "We are looking into it (the deal) to see of NOJC can or should try to do anything."

Mason says he also sees some competition problems for Southland at the street level with the Citgo properties. "They will be competing with some of us at retail, but that's nothing new," he says.

The official announcement of the deal had virtually nothing to say about future operating plans for the Cities Service properties, and Citgo marketing personnel were awaiting further developments shortly after the plan was revealed.

A Southland spokeswoman said details as to just how the Citgo properties will be operated had yet to be worked out. She did add, however, that no immediate changes in personnel or operations were contemplated.

One high-level Citgo marketing executive said his initial reaction was "positive" but added no negotiations concerning his status or that of other key Citgo people had taken place at that time.

Some outsiders were wondering if the Citgo brand can continue in competition on the street with 7-Eleven stores.

"The Quik Mart and 7-Eleven stores have been fighting here in Fort Worth," said a marketer in that city. "And, what about all those Citgo jobbers who often find 7-Eleven stores their biggest competition?"

One Powerful Company

Some observers also were questioning the wisdom of Southland getting in the oil refining business at a time when oil companies have been closing many plants. Unless the company stubs its toe on the refinery, however, these sources see the C-store giant as a very powerful retail gasoline marketer.

"I don't know if they can handle all of that business with just one 250,000 b/d refinery (the size proposed for the Lake Charles refinery after its conversion to heavy crude), but this will sure give them a lot of controlled volume," says one oil company executive. "But you've got to wonder if the one refinery can handle it, even if they get a 70% gasoline yield. It looks to me like the Citgo wholesale operation could be in jeopardy."

This is not necessarily so, though, says Citgo jobber Mason. "Any refiner should be a net-buyer of product. The last thing you want is more refinery capacity than you have customers."

"They can't handle it all with just the yield of that refinery," says another executive. "They would have to operate at 100% capacity 365 days a year, and you can't do that with a refinery. This will give them access to lots of exchanges and trades, though."

Both of these sources speculate that Southland may decide to "go to retail" with most of the refinery's output.

"I'd be worried if I were a Citgo jobber," says one. "Southland can make more money going to retail and getting rid of the jobbers. If they net just 2¢ gal. through their huge retail chain, that's a hell of a lot of money on 3.8-billion gal. a year."

On the other hand, acquisition of the Lake Charles refinery plus related capital improvement plans move Southland a step closer toward becoming an integrated oil company.

"This means they are no longer a grocery store outfit with a few 'gas' pumps," says an oil company executive. "Now, they will be an oil company with some grocery stores. Maybe they will find they need to help us fight such things as divorcement moves."

Farm Fuel Demand May Drop Due to USDA Crop Swap Offer

A new federal program designed to reduce agricultural surpluses is also likely to chop up profits for many rural jobbers.

Under the U.S. Department of Agriculture's Payment-In-Kind (PIK) price support program, wheat, corn, rice, sorghum and cotton farmers receive crops for idling part of their acreage. Federal officials estimate 79.8-million acres will be left idle this year.

"We've reached the maximum signup. Normally we don't reach that percentage of signup in our programs," says Carl Graham, a USDA agricultural marketing specialist.

Graham says 78% of the nation's corn and sorghum farmers have enrolled acreage in the program, as have 95% of the rice growers; 86% of the wheat producers and 94% of the cotton farmers.

To some rural jobbers, these figures from the fields could spell trouble at their bulk plants.

"You take a decreasing market for gasoline and then you take diesel fuel and you pay your farmers not to plant so they don't use diesel fuel, and you drive the rural jobber out of business," says Roger Lane, executive director of the Georgia Oilmen's Assn.

The National Oil Jobbers Council estimates about 55% of its 15,000 members are rural jobbers.

In Iowa alone, an estimated 80% of the petroleum marketers are farm jobbers, each one with an average gallonage of about 1-million gal. a year and about a third of the business in farm diesel.

"I am very worried about my own business," says Larry Watson, president of the Petroleum Marketers of Iowa [NPN—April '83, p63]. "I have been here 29 years on the same corner. I don't know if I will be here in 1983 or not. This is not a good industry to be in right now."

Watson says many jobbers already have problems collecting on their farm accounts. He says several of his farm clients have faced bankruptcy, and he depends on his lawyer to follow up on a number of his invoices.

"I don't think there's a jobber in the state who is going to knock the PIK program, because farmers need to get on their feet, or we all are going to be broke," Watson says.

North Dakota is a state blanketed with large wheat farms, served by a comparative handful of petroleum marketers.

"Those are huge farms out there, and their (jobbers') entire business would be 10 to 15 accounts (apiece). When that business gets cut in half, that's going to hurt," explains Gerald Everett, executive director of the Northwest Petroleum Assn.

Some jobbers say this loss of business will create some cut-throat competition. They say many marketers already are scrambling for business, and their situation could turn from bad to worse.

"I just bid a county school. I cut it down to the bone, and I got beat by 2¢," says Watson. "That would be below my cost and into the freight. There's not too much you can do unless you go out and get someone's customers. That's the only way some of us are going to survive."

"I bet we lose 15% of the Illinois jobbers," says Marvin Meier, a rural multi-branded jobber. "The jobbers are already in trouble. They're going to have to make up their minds whether there is a possibility they want to stay with a sinking ship and lose everything they have."

Despite some dire predictions, a number of rural jobbers remain optimistic. They bask in the idea that the program is only temporary and find relief in the fact that idle lands still require some attention.

Rural jobbers have faced traditional farm price support programs before, as well as smaller-scale payment-in-kind programs. American Farm Bureau Federation officials say a similar PIK program was introduced as part of the "New Deal" package in the early 1930s; another was used to address a feed grain surplus in the early '60s.

"The farm business is still going to be there next year," says Michael Babcock, a rural Indiana jobber.

Federal officials do say, however, there has been some discussion about extending PIK another year. But the USDA's Graham says this remains just talk.

"PIK is going to affect us, but not to the point where it's going to hurt," says marketer John Alt, of northern Indiana.

Everett, of NwPA, says a collection of highway tax hikes may keep the diesel market from a crisis. He says the 5¢ increase in the federal motor fuel tax and state tax hikes of 4¢ in North Dakota and Minnesota may help keep his rural members solvent.

"This may help put people back to work. It means new equipment and highway construction, but we don't know how it will balance out," Everett says.

Although millions of acres will be idle—many farmers won't. Federal officials say some grazing will be allowed, and the land will require maintenance.

"It has to go to conservation use," explains Graham. "They'll need ground cover to keep the land from erosion. In 1983, there just will be no market production coming off the land."

"I have not found a farmer yet that I have talked to that is going to use a lot less fuel," says Greg Cattoor, a southwest Minnesota jobber. "You use a lot more fuel to plow than to harvest. A cover crop would require spraying, and in the fall that ground has to be plowed. They're (the farmers) are going to do everything except harvest the crop."

But some farmers say a little ground cover won't go a long way.

"You're going to seed your lands a couple of times, and that still takes fuel," says one Iowa farmer. "But it's more light work, if you don't have to harvest. It'll cut fuel demand in half on those acres."

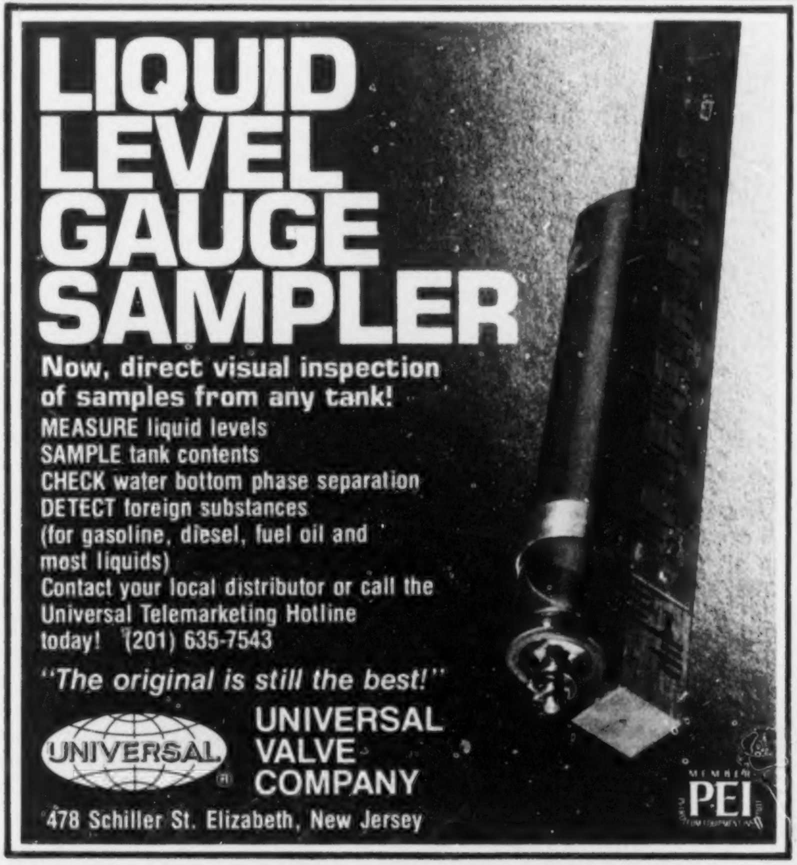
—Donna Lawrence

Where PIK Will Have the Most Impact*

(By acreage committed)

Corn Growers		Wheat Growers	
Iowa	**6.2 mil.**	**North Dakota**	**5.3 mil.**
Illinois	**4.5 mil.**	**Kansas**	**4.1 mil.**
Nebraska	**4.4 mil.**	**Oklahoma**	**3.3 mil.**
Minnesota	**3.1 mil.**	**Texas**	**3.0 mil.**
Texas	**2.3 mil.**	**Nebraska**	**2.3 mil.**
Indiana	**2.3 mil.**	**South Dakota**	**1.9 mil.**
Ohio	**1.6 mil.**	**Minnesota**	**1.7 mil.**
		Colorado	**1.2 mil.**

*To participate in PIK, a farmer would have to leave idle 20% of his crop base. The farmer would receive payment-in-kind for 10% to 30% additional acreage he didn't harvest. In some cases, farmers are allowed to divert their entire base. USDA officials say at least 80% of the participating farmers idled at least 80% of their base.



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Industry Woes Led to 57 Refinery Shutdowns

Declining consumption, the economic recession, and excess capacity continued to take a heavy toll on the U.S. refining industry in 1982.

The Department of Energy, in a recap of what happened last year, said 57 refineries had shut down in the 12-month period ending Dec. 31.

The lost capacity totaled 1.1-million b/d. In addition, the government reported, another 1.5-million b/d were idle on Dec. 31. The latter, however, can be brought back on stream within 90 days if conditions warrant.

In 1981, DOE said 23 refineries with a capacity of 451,000 b/d closed their doors; and another 260,000 b/d were idle.

The shutdowns in 1981 were the first in the U.S. industry of any substance since the mid-1960s. During the interim, there had been steady growth, year in and year out.

Nor is the end yet in sight. Ashland Oil announced in mid-March, for example, that it is closing its 26,000 b/d refinery at Lexington, Ky., because it had been running at less than 50% of capacity.

Before the month was out, Chevron announced that it would cease production of gasoline and heating oil at its 168,000 b/d refinery at Perth Amboy, N.J., effective June 1. The plant had been running at less than half its rated capacity—70,000 b/d—since last fall.

Chevron will continue asphalt production at Perth Amboy and will use its terminal facilities for the time being. A spokesman said Chevron will take care of its East Coast markets via exchanges with other companies and from increased production at its 280,000 b/d refinery in Pascagoula, Miss., where a $1-billion upgrading program is nearing completion.

About 500 employees will be transferred or dismissed Chevron said; about 75 asphalt employees will continue at the plant.

Chevron said there was "little prospect" of making the big refinery profitable again because of shrinking demand and an excess of refinery facilities.

The two-year total for closed refineries now stands at 80 plants. In its roundup report, DOE made these comments:

- About 40% of the shutdown plants had been operating for 25 years or more, while another 40% had been on stream for less than five years.
- More than half of the shutdown refineries had crude oil distillation capacities of less than 10,000 b/d, while 90% had crude oil distillation capacities of less than 50,000 b/d.
- Most of the larger and older shutdowns were Midwest and East Coast. Most of the smaller and newer refineries that were shut down were Gulf Coast.

District/Refinery	Location	Crude Distillation Capacity b/d	Years in Operation
East Coast (PAD District 1)			
Amoco Oil Co.	Baltimore, Md.	15,000	25+
Ashland Oil, Inc.	Buffalo, N.Y.	64,000	25+
Seminole Refining, Inc.	St. Marks, Fla.	15,000	25+
Total		94,000	—
Midwest (PAD District II)			
Amoco Oil Co.	Sugar Creek, Mo.	104,000	25+
Ashland Oil, Inc.	Findlay, Ohio	20,400	25+
CRA, Inc.	Scottsbluff, Neb.	5,600	25+
CRA, Inc.	Phillipsburg, Kan.	26,400	25+
Dillman Oil Recovery, Inc.	Oblong, Ill.	1,200	4
E-Z Serv Refining, Inc.	Shallow Water, Kan.	9,500	25+
Energy Cooperative, Inc.	East Chicago, Ind.	126,000	25+
Industrial Fuel & Asphalt of Indiana, Inc.	Hammond, Ind.	7,600	25+
Kentucky Oil & Refining Co.	Betsy Lane, Ky.	3,000	25+
Mid-America Refining Co. Inc.	Chanute, Kan.	3,000	25+
Northland Oil & Refining Co.	Dickinson, N.D.	5,000	7
Phillips Petroleum Co.	Kansas City, Kan.	80,000	25+
Texaco, Inc.	West Tulsa, Okla.	50,000	25+
Texas America Petrochemicals Inc.	West Branch, Mich.	11,500	25+
Total		453,200	—
Gulf Coast (PAD District III)			
Bayou State Oil Corp.	Hosston, La.	3,000	25+
Bronco Refining Co.	Houston, Texas	2,250	1
Caribou-Four Corners Oil Co.	Kirtland, N.M.	2,400	17
Clinton Manges	Palestine, Texas	6,000	25+
Copano Refining Co.	Ingleside, Texas	11,100	4
Dow Chemical U.S.A.	Freeport, Texas	190,000	1
Eagle Refining Corp.	Jacksboro, Texas	1,800	1
Giant Industries, Inc.	Farmington, N.M.	13,500	7
Independent Refining Corp.	Pt. Neches, Texas	30,000	4
Independent Refining Corp.	Winnie, Texas	50,000	23
Lake Charles Refining Co.	Lake Charles, La.	28,000	2
Listo Refining Co.	Donna, Texas	3,500	4
Longview Refining Co.	Longview, Texas	14,000	25+
Natchez Refining Co.	Natchez, Miss.	16,000	2
Petraco-Valley Oil & Refining Co.	Brownsville, Texas	12,300	2
Placid Oil Co.	Mont Belvieu, Texas	8,500	2
Quitman Refining Co.	Quitman, Texas	6,600	4
Rio Grande Crude Refining	Brownsville, Texas	9,500	3
Rio Grande Recovery Systems, Inc.	Brownsville, Texas	1,000	2
Schulze Processing, Inc.	Tallulah, La.	1,760	4
Sentry Refining, Inc.	Corpus Christi, Texas	25,000	4
Shepard Oil Co.	Jennings, La.	10,000	4
Sooner Refining Co.	Darrow, La.	8,000	2
T & S Refining, Inc.	Jennings, La.	10,500	2
TARCO	Euless, Texas	6,000	20
Tipperary Refining Co.	Wickett, Texas	7,320	4
Vicksburg Refining Co.	Vicksburg, Miss.	7,900	4
Wickett Refining Co.	Wickett, Texas	8,000	25+
Total		493,930	–
Rocky Mountain (PAD District IV)			
C & H Refinery, Inc.	Lusk, Wyo.	180	25+
Caribou-Four Corners Oil Co.	Woods Cross, Utah	7,200	19
Glacier Park Co.	Osage, Wyo.	10,000	4
Husky Oil Co.	Cody, Wyo.	11,500	25+
Morrison Petroleum Co.	Woods Cross, Utah	6,300	8
Sage Creek Refining Co.	Cowley, Wyo.	1,000	17
Texaco, Inc.	Casper, Wyo.	21,000	25+
Total		57,180	—
West Coast (PAD District V)			
Gibson Oil & Refining Co.	Bakersfield, Calif.	4,600	3
Lunday-Thagard Oil Co.	South Gate, Calif.	12,000	14
Sabre Oil & Refining, Inc.	Bakersfield, Calif.	10,000	10
United Independent Oil Co.	Tacoma, Wash.	730	7
West Coast Oil Co.	Oildale, Calif.	21,000	25+
Total		48,330	—
U.S. Total		**1,146,640**	–

SIGMA Study Shows Bay and Pump Services on Upswing

With the continuing disappearance of service stations from the nation's highways, are those that are left upgrading their customer relations and repair services?

The answer is yes; or, at least that's an inference that can be drawn from the latest statistical profile of its membership prepared by the Society of Independent Gasoline Marketers of America (SIGMA).

The profile says that the number of full-service and split-island facilities increased among the SIGMA membership stations in 1982 at the expense of self-service and mini-service outlets.

It also noted that the number of outlets that perform auto maintenance (those with motor fuel and lube bays) rose from 6.7% in 1981 to 15.6% in 1982.

Said SIGMA: "That increase came despite decreases in recent years in the number of stations nationwide that provide auto maintenance."

In summary form, following is the type of service at stations supplied by SIGMA members:

	1982	1981
Full service	9.1%	7.6%
Self-service	64.7%	67.3%
Mini service	7.8%	15.5%
Split-island	18.6%	9.6%

A comparable summary deals with the types of operation at stations supplied by SIGMA members. Here are the highlights of this profile:

	1982	1981
Motor fuel & incidentals	48.5%	54.1%
Motor fuel & car wash	0.9%	1.6%
Motor fuel & C-stores	25.2%	30.0%
Motor fuel & lube bays	15.6%	6.7%
Motor fuel & other	8.3%	5.0%
Truck stops	1.5%	2.6%

The in-depth look at its rank and file showed that SIGMA member companies sold 14.5-billion gal. of motor fuel in 1982, or 12.5% of the U.S. total, through more than 19,000 outlets in all 50 states. SIGMA members owned 10,600 of the 19,100 companies involved.

Membership gallonage ranged from as little as 1-million gal. a year to more than 500-million gal. a year in 1982, with some companies servicing only a few outlets and others more than 500.

The "typical" member, SIGMA said, supplied 65-million gal. of motor fuel to 86 retail outlets. This mathematical average also said that the "typical" member had 257 direct motor-fuel related employees and 5.4 employees per controlled outlet.

"During 1982," a highlight summary said, "SIGMA members, like other segments of the petroleum industry, competed fiercely for the chance to fill the fuel tanks of American automobiles and trucks."

In 1982, the association said, one out of every five member companies sold more than 100-million gal. of motor fuel. About half of the membership sold between 10-million and 60-million gal. Only 12%, or fewer than one in every eight members, sold less than 10-million gal.

These figures vary significantly from the 1981 results, SIGMA said, when more than one out of every three member companies sold less than 10-million gal.

"SIGMA's member companies pumped less motor fuel than in the previous year (nearly 14.5-billion gal. in 1982 versus more than 18.5-billion gal. in 1981)," the highlight summary said.

"However, they continued to expand their operations by adding retail outlets. Although they continued to control approximately the same number of outlets, the total number of outlets supplied increased by nearly 2,000 for a total of 19,100.

Crude Futures Launched At Two Trading Houses

Chicago Board of Trade (above) buzzed with 3,753 crude oil futures contracts, while the New York Mercantile Exchange traded 1,909 on the contracts' debut day, March 30. CBoT also launched its #2 oil futures April 4, with 77 contracts traded.

Gas Decontrol Stalled, Political Lines Drawn

The battle over decontrol of natural gas prices has begun in earnest in Congress, but it could be a long time before the issue is resolved.

After a long delay, President Reagan earlier this year sent his proposal for gas decontrol to Capitol Hill, where several similar measures already were in the hoppers. Along with them are other measures that would not only keep controls in place, but also free gas distributors from the high-priced contracts many are locked into.

Heating oil jobbers have long backed natural gas decontrol on grounds that controls have held prices artificially low and created a wide discrepancy between oil and gas prices. Oddly, however, the administration says it favors decontrol because it promises to lower consumer gas prices [NPN—April '83, p10].

Energy Secretary Donald Hodel recently told the Senate Energy Committee the administration believes that removing controls on so-called "old gas"—from wells drilled before 1977—will prompt gas producers to produce more from such wells. Because old gas costs less to produce, Hodel said, increasing production from those wells will keep gas prices down, even if producers are getting higher prices. Currently, old gas sells for a controlled price of about $1.38 per thousand cubic feet, while gas from newer wells sells at $3.30.

Democrats on the Senate panel made it clear that any decontrol legislation will have to include the equivalent of a windfall profits tax to gain their votes—and more importantly, the votes of Democrats who control the House. The issue also may become a regional one rather than one dominated by party politics. Republicans and Democrats alike from the Northeast and Midwest have spoken out against decontrol, while those from both parties in producing states favor the White House plan.

The latest decontrol proposals differ from previous versions in that they pay little attention to decontrol of new gas. Controls on post-1977 production will expire in 1985, even if no action is taken by Congress. Recognizing that it may take that long to decontrol any gas prices, the current legislation concentrates on the older wells, (which would remain under controls until they are exhausted, unless the law is changed).

Congressional sources say that thinking is reasonable. "Barring a miracle," one Senate Energy Committee staffer told *NPN*, "there isn't much chance for decontrol this year. It will take a major effort to get (decontrol legislation) passed by sometime next year."

EPA Hounding Tamperers Of Catalytic Converters

The EPA also is citing muffler shops and repair facilities for violating the Clean Air Act. These outlets may encourage fuel-switching by tampering with vehicles' emissions systems.

Post-1975 unleaded vehicles are equipped with catalytic converters, anti-pollutant devices which reduce noxious emissions through a chemical reaction. Service personnel have been known to remove the device or the nozzle restricter which accommodates the larger fuel nozzles on leaded fuel pumps.

Since last October, the EPA has cited seven repair facilities and muffler shops across the country for such tampering.

"Our enforcement efforts are primarily on shops that remove catalysts and other emissions parts," says Jim Sakolosky, EPA enforcement chief in Washington D.C. Sakolosky says emissions increase 200% to 800% after catalytic converters are removed.

If federal enforcement fails, state and local government efforts may succeed. Since early this year, the EPA has been offering grants for public education campaigns and local inspection programs.

"State and local governments are much closer to the problem. Localities have a larger presence in an area," says Kozlowski.

Chicago received $75,000 for a program that would allow inspectors to check the city's gasoline stations and fleet operations for gasoline tanks overloaded with lead. Inspection teams take samples from a tank through the pump. If on-site tests reveal excessive lead levels, the samples face laboratory tests. Violators can be fined under the city's consumer protection ordinances, city officials say.

Since January, just less than $1-million out of the $84-million in federal dollars available under the Clean Air Act have gone to about 20 local and state governments.

EPA officials say 40 states ban fuel-switching, but add that enforcement is still a problem.

"I'm almost positive that the enforcement of tampering laws is not done uniformly or systematically," says Perriconi.

EPA officials say 12% of the nation's unleaded vehicles have been subject to fuel-switching, and 17% of the unleaded fleet, to emissions tampering.

But in random inspections, only an average 1% of gasoline marketers are found violating federal standards. Improper fueling occurs more often on the driver level, says a transportation analyst who has studied the problem for the U.S. Department of Energy.

"Misfueling is primarily a consumer problem," he says. "With the millions of misfuelers on the road, there's no effective way to go after them."

The Push to Inspect

The EPA focuses its enforcement efforts at the wholesale level, leaving individual enforcement to the states. EPA officals say, however, consumers rarely are fined for fuel-switching.

EPA records show 30 states are required to adopt emissions control programs under the Clean Air Act. Less than half the states have complied with the act, and 13 could lose federal funds for noncompliance.

"Most states (which comply) require annual inspection of all cars or all cars over 12 to 15 years old, says Phillip Lorang, an EPA inspection chief based in Michigan. "The inspections include measurement of what's coming out of the tail pipe. Some also include inspecting under the hood to see if parts have been removed."

EPA officials also encourage states to adopt laws requiring an inspection before a title transfer of a used car. An EPA official based in Chicago, however, says he only knows of three states with such inspection laws.

"In Minnesota, no person is able to transfer the title of a car unless all systems are in place and in operating condition. In Illinois, there is no recourse," says Perriconi.

When asked why such standards couldn't be incorporated into federal law, he said, "Have you seen the Clean Air Act? It is hard to change federal law. You simply carry out the law."

How Misfueling Rates Have Increased*

	1978	1979	1980	1981
Domestic cars	3.9	4.5	5.7	7.1
Import cars	14.5	12.5	6.1	5.5
Light trucks	—	—	—	19.8

***U.S. Department of Energy percentages of the misfueling rate—the percentage of the total gallons leaded gasoline consumed by vehicles required to use unleaded fuel.**

Motorists' Fuel-Switching Depends on Auto's Age

Product price is not the major reason consumers illegally fill their cars with unleaded gasoline, according to a study last year for the U.S. Department of Energy.

Moreover, it's the age of the vehicle that tempts the misfueler. The older the car, the less one might worry about the effects of misfueling, says Robert Crawford, a transportation systems analyst who prepared the study for DOE.

"With a brand-new car in the first year, misfueling has the potential for voiding a warranty. When cars are under a warranty, there's a strong incentive to keep it in force. Owners of new cars tend to take better care of their cars," he says.

Misfueling involves vehicles equipped with anti-pollution, catalytic converters designed to use unleaded gasoline. When such vehicles are filled with regular-grade gasoline, the operator or station attendant is in violation of federal law.

The misfueling rate, therefore, represents the percentage of the total gallons used by such vehicles that is leaded regular.

The research shows that a one-year old vehicle is misfueled about 2% to 3% of the time. Whereas, misfueling rates for a seven-year-old (May 1975) vehicle in 1981 are about 13%.

Fuel-switching patterns also can be traced by regions. The South-Central region of the country has the highest misfueling rates, ranging from 7% to 14%. However, the New England and Mid-Atlantic regions have the lowest levels, extending from 2% to 4%.

Research indicates misfueling rates are higher in predominately rural areas and lower in urban areas.

"Your major cities have major air pollution problems, and you are also dealing with people who are city dwellers and less likely to work on their own car," says Crawford. "But people who live out in the country are much more comfortable with mechanical equipment, and they certainly know how to take off a catalyst," says Crawford.

A seasonal analysis of the misfueling rate suggests that vehicle performance is not a primary motivation for fuel-switching. Low humidity levels which generally occur during winter can lower the moisture content of the fuel charge and increase engine knock. However, seasonal data didn't display higher misfueling rates in the winter months.

Because it's a federal offense for service station operators to knowingly fill unleaded tanks with leaded fuel, misfueling rates at full service retail outlets ought to be lower than those at self-service pumps. The 1981 data supports this premise: misfueling at self-service pumps range from 9% to 10%, while misfueling at full-service outlets occurs only about 4% to 5% of the time.

June 1983 $4.00

Amoco Tops Again in Share of Market

Can Arco's Express Cashier Boost Profits?

Car Racer Petty Turns into Oil Jobber

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How Ron Hall Is Changing Things at Gulf

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NATIONAL PETROLEUM NEWS

JUNE 1983
VOL. 75 NO. 6

18 Regional News

18 **East Coast**
Employees take over Mobil station; lubes and service enhance status

19 **South**
Integrated companies consolidating, due to slow demand, fast computers

20 **Midwest**
Minnesota's omnibus profits tax may chase away oil and other firms

22 **West Coast**
'Arco's army tells (nearly) all,' or: 'Stumping along an innovator's trail'

24 **Rockies**
April tax hike OK, say jobbers, but state increases would bind

27 General News

27 Amoco retains top slot in market share; Arco scores 24% volume gain
28 More downs than ups in first-quarter earnings reports
29 Consensus at API meeting: No let-up in market pressures
29 Corco sells refinery to Apex after all
30 Are minimum markup measures worth it?
31 Northern Tier calls it quits after lengthy permit fight
32 On-road diesel demand tops 14.6-billion gal.
33 Shell, Exxon lead pack as top TV ad spenders in 1982

36 Features

36 **Cover Report**
How Ron Hall is changing things at Gulf

41 **Automation**
Cardlock system primed for expansion

43 **Corporate Image**
Image emphasis boosts call for uniforms

44 **TBA/Aftermarket**
If TBA rises, will oil jobbers reap?

46 **Management**
Richard Petty enters oil marketing

48 **Operations & Equipment**
'Cash-only' Arco adds automation

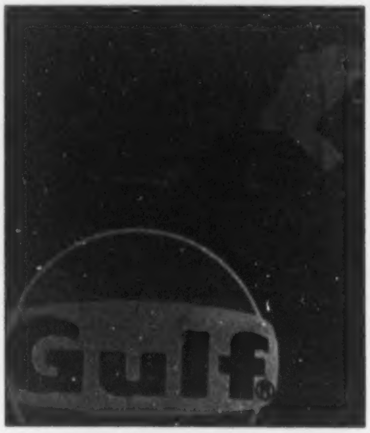
50 **Buyer's Guide Addendum**
Product and service supplier listing

59 **Legal—Sam Borenkind**
True or false: Lists are depreciable

60 **Tax—Irving Blackman**
How closely-held firms can save tax money

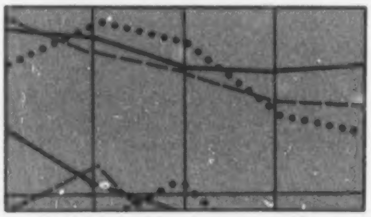
Departments

61 About Oil People
11 Ahead of the News
15 Catching Up
64 Classified
9 Coming Meetings
54 C-Store Briefs
54 Fuel Oil Briefs
12 Late News
51 Letters
5 Looking Things Over
62 News Notes
58 O & E Briefs
51 TBA Briefs
16 Trends/Marketplace



When word got out last year that Gulf was reorganizing its refining and marketing operation, some oil people may have looked at it as more musical chairs. That is, until it was learned that former Shell exec Ronald E. Hall had been tagged Gulf's senior vice president of marketing. **Page 36.**

Cover design by Claude J. Zajakowski Design, Chicago



Even though its volume slipped 50.3-million gal. in 1982, Amoco is still the No. 1 gasoline marketer in the nation, for the second year in a row, according to Lundberg Survey, Inc. the national handicapper. **Page 27.**

Express
Cashier
Pay Here
Express
Cashier
Pay Here
xpress PrePay

Arco is trying to find out whether gasoline dispensers operated by paper money can be used profitably at its outlets in the Los Angeles vicinity. And, early results from the three units are signaling some measure of success. **Page 48.**

• TRENDS

Marketers Getting Bullish On Government Intervention

A frustrated and even frightened segment of oil marketing—branded and unbranded wholesale distributors—believes it is being pushed into a corner by the major oil companies, with perhaps the only exit being some form of "political action."

This means calling in the federal government in hopes that it can help preserve the distributor's role in the industry. Marketers are quaking over tales about even the *efficient* ones among them who are going belly-up these days. [See page 5.]

The growing support for a "political solution" to their marketplace problems was evident at recent spring meetings of the Society of Independent Gasoline Marketers of America (SIGMA) April 23-25 in Denver and National Oil Jobbers Council (NOJC) May 8-11 in New York. An awareness of the distributors' anxiety and what it could lead to also hung over the American Petroleum Institute's Marketing Department mid-year meeting in Denver April 25-27. [See story page 29.]

The two major distributor groups express extreme concern over what they perceive to be marketplace chaos touched off and kept alive by some majors with subsidized retail operations.

Some leaders of the distributor groups are convinced that some major company retail pricing practices aren't profitable and are being subsidized with upstream crude oil profits.

"They (the majors) are determined to take over metropolitan markets at any cost," says a large independent. "All they care about right now are their market shares and unit throughputs. Their field people aren't responsible for profits—just volume."

All majors deny such charges, especially those alleging subsidization with upstream profits. "I can't believe any major is subsidizing its retail operations," says George Babikian, Arco's top marketing man.

Nevertheless, with the allegations and denials continuing to swirl around the industry, marketers at all three spring meetings expressed concern that the turmoil and chaos at retail will force distributors to push for legislative and/or legal solutions. Just how serious the distributors are about turning to political solutions was perhaps best illustrated at SIGMA's meeting.

This group, long known for holding "open" meetings, barred all non-members (including the press) from its legislative committee meeting where efforts were made to hammer out a concensus position on what actions to take or support. Even after hours of debate, however, SIGMA could only agree to modify its position on market restructure legislation and call for an emergency meeting of its board of directors later this month in Washington for further discussion.

As a result, SIGMA might adopt a tougher stand than previously. It would "implement" (rather than "explore") political proposals which would "prohibit subsidization of downstream operations with upstream revenues."

It is understood that SIGMA is considering a wide range of political actions. Various options recommended by the legislative committee hit snags in Denver, however, resulting in a call for the "emergency" board meeting.

NOJC, which convened shortly thereafter in New York, seemed less anxious to push for major restructuring, such as divorcement or divestiture [NPN—Oct. '82, p10]. Instead, NOJC seems to pin most of its hopes on amending the Petroleum Marketing Practices Act (PMPA) and on legislation that would bar credit card surcharges.

"Our members are extremely concerned and frustrated,' said Phil Chisholm, NOJC executive vice president. Although the leadership does not support divorcement/divestiture bills, he adds, the staff was told to prepare a thorough backgrounder on them for the exec committee later this month.

NOJC believes certain amendments to the PMPA, if carefully worded to keep from snaring jobbers, could bring some relief to its members.

"Basically, we want to see something done to equalize things," Chisholm says. Jobbers want to get the same rebates, competitive price allowances, and so forth given to dealers, he adds, and NOJC's leadership believes certain PMPA amendments could bring this about.

Positions could begin to crystallize, following SIGMA's Washington meeting. But the distributor groups seem bound and determined to push their political proposals, barring a sudden big improvement in marketplace conditions.

—Marvin Reid

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

MARCH	Gasoline (All types)	Leaded Regular	Unleaded Regular	Leaded Premium
U.S. City Avg.	$1.135	$1.064	$1.151	$1.274
Regions:				
Northeast	1.177	1.113	1.178	NA
North Central	1.145	1.095	1.164	NA
South	1.123	1.048	1.140	NA
West	1.104	1.011	1.129	1.278

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	4/29/83	4/30/82
Gasoline (total)	224,888	227,940
Gasoline (unleaded*)	92,169	89,026
Kerosine **	35,847	36,609
Distillates	107,797	111,688
Residual	43,720	55,023

**Included in gasoline total.*

***Jet kero only; totals no longer kept by API and DOE.*

Source: American Petroleum Institute.

NPN

NATIONAL PETROLEUM NEWS JUNE 1983

Amoco Retains Top Slot in Share of Market, While Arco Scores a 24% Gain in Gallonage

Even though its volume slipped 50.3-million gal. in 1982, Amoco is still the No. 1 gasoline marketer in the nation, for the second year in a row, according to Lundberg Survey, Inc., the national handicapper.

Amoco wound up the year with 7.36% of the market, more than a half-billion gal. of gasoline ahead of second-place Shell at 6.78% and third-place Exxon at 6.64%. Gulf, fifth in 1981, and Mobil, sixth in the same year, vaulted over Texaco which dropped from fourth to sixth place. Gulf is now the fourth leading marketer, and Mobil is fifth.

Atlantic Richfield, which abandoned credit cards and went to cash pricing in 1982, scored a whopping 24% gain in its gallonage—almost 935-million gal. more than in 1981 [NPN—Dec. '82, p27]. The surge enabled Arco to pass Chevron in the gasoline derby and take over the seventh position.

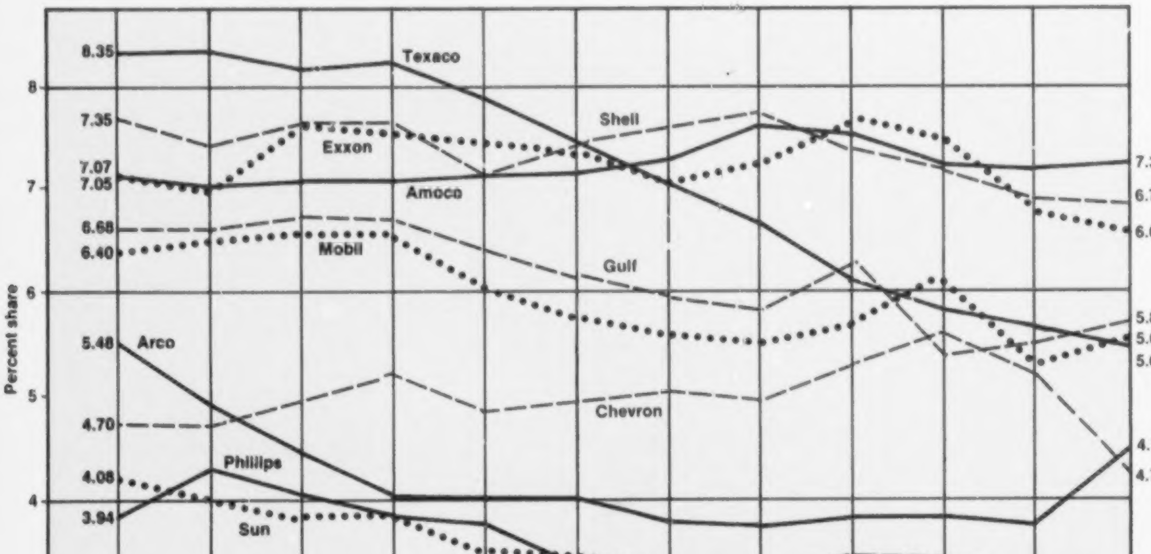
Lundberg reported the 1982 taxable gasoline volume was 100.6-billion gal., down 1.64% (or 1.7-billion gal.) from the preceding year's total of 102.3-billion gal. [See table for details.] The peak year for gasoline sales was 1978, when volume exceeded 115.3-billion gal.

For the statistical minded, this is a drop of 14.9-billion gal. of gasoline in four years—a staggering decline in view of the many years of constant growth in gasoline consumption. That figure alone dramatizes, more than anything else, how the gasoline pie has shrunk in recent years.

Top 11 Marketers: A Five-Year Overview

	1982		1981		1980		1979		1978	
	Rank	% Share	Rank	% Share	Rank	% Share	Rank	% Share	Rank	% Share
Amoco	1	7.36%	1	7.28%	3	7.40	2	7.48%	2	7.71%
Shell	2	6.78	2	6.89	2	7.44	3	7.30	1	7.70
Exxon	3	6.64	3	6.81	1	7.54	1	7.65	3	7.28
Gulf	4	5.85	5	5.69	7	5.39	4	6.36	5	5.83
Mobil	5	5.63	6	5.38	4	6.01	6	5.78	6	5.55
Texaco	6	5.61	4	5.77	5	5.95	5	6.01	4	6.75
Atlantic Rich.	7	4.79	8	3.80	8	3.87	8	3.89	8	3.79
Chevron	8	4.74	7	5.21	6	5.77	7	5.30	7	4.76
Union	9	3.25	9	3.31	9	3.50	9	3.49	9	3.28
Phillips	10	2.75	10	2.88	10	2.83	11	2.85	11	3.02
Sun	11	2.57	11	2.55	11	2.74	10	3.01	10	3.20

Source: Lundberg Survey, Inc., May 1983 and prior reports.



Souce: Lundberg Survey, Inc., North Hollywood, Calif., April, 1983.

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The Lundberg figures confirm that the majors, as a whole, continue to dominate gasoline marketing. They had 64.73% of the total gallonage in 1982, up a very modest 0.03% from 1981. The top 11 companies led the way, with 55.96% of the national volume, compared with 55.59% in the year before.

At the same time, independent marketers picked up a bit of gallonage in 1982, according to Lundberg. As a group, they had 5.58% of the national market, up 0.28% from their 1981 total of 5.4-billion gal.

More Downs Than Ups In First-Quarter Reports

Exxon and Standard of California had surprisingly strong first-quarter earnings, although the rest of the top companies (except for Mobil), were all on the down side.

Exxon netted more than $1-billion in the first three months of 1983, while Socal earned $310-million. They were up 26.3% and 34.8%, respectively, over the comparable periods of 1982. Mobil, with a first-quarter net of $250-million, had a plus sign of 2.5%.

A recent summary by *The New York Times* showed that Exxon Corp. generated more revenue in 1982 than any other non-financial business firm in the land but, despite that, ranked only third in the matter of profits.

The Houston-based oil company had revenues of $103.6-billion last year, 59% more than second place A.T. & T. with $65.1-billion. Others in the first five were Mobil, $63.8-billion; General Motors, $60-billion; and Texaco, $48-billion.

Amoco, Shell and Arco, the market leaders in volumes and prices (see preceding story), made money in the first quarter but not nearly as much as in the comparable period of last year because of depressed prices.

In the *Times'* summary of the top 25 nonfinancial companies, 12 oil companies were listed, as follows (with position number in parentheses):

Exxon (1), Mobil (3), Texaco (5), Standard of California (7), Gulf (10), Standard Oil (Ind.) (12), Atlantic Richfield (13), Shell (17), Occidental Petroleum (19), Sun (22), Phillips (23), and Tenneco (24), the newspaper reported.

Exxon has been No. 1 in gross revenues since 1978, when it displaced A.T. & T., which is soon to be broken up. At that, however, Exxon's 1982 revenues were down 10% from the 1981 total of $115-billion.

1983 First Quarter Oil Company Income

(Add 000)

	1st Qtr. 1983	1st Qtr. 1982	% Change
Exxon	$1,060.0	$839.0	26.3%
Mobil	250.0	244.0	2.5
Texaco	319.0	367.0	(13.1)
Standard (Ind.)	399.0	470.0	(15.1)
Stand. of Calif.	310.00	230.0	34.8
Atlantic Richfield	310.4	385.4	(14.3)
Shell	246.0	345.0	(28.7)
Gulf	182.0	288.0	(35.8)
Tenneco	111.0	129.0	(14.0)
Standard (Ohio)	277.0	455.0	(39.1)
Phillips	129.0	192.0	(32.8)
Sun	90.0	124.0	(27.4)
Getty	157.8	179.7	(12.2)
Union Oil	128.3	168.5	(23.9)
Amerada Hess	5.0	(16.2)	—
Ashland (a)	(14.5)	(11.6)	—
Kerr-McGee	23.7	29.2	(18.8)
Diamond Shamrock	4.6	64.6	(928.8)
Murphy	27.9	33.8	(17.5)
American Petrofina	0.3	15.9	—
Crown Central	(10.5)	(1.0)	—
Southland Corp.	7.7	9.5	(18.9)
Total	(37.0)	4.5	—
Pennzoil	41.3	40.0	3.3
Tesoro Petro. (b)	4.1	(3.8)	—
Tosco	(46.6)	0.5	—

(a) second quarter since fiscal year ends 9/30; first half earnings were $14.6-million vs. $35.9-million in 1982; (b) Second quarter since fiscal ends 9/30; first half earnings were $14.5-million vs. $17.2-million last year.

Du Pont and Ethyl Corp. Charged with Price Fix

It isn't clear how prices will be affected, but the Federal Trade Commission (FTC) has charged E. I. du Pont de Nemours and Ethyl Corp., the two largest lead additive makers, with anti-competitive price fixing. Both firms have indicated they'll fight the charges.

The FTC, which voted 3-1 to bring the charges, did not accuse Ethyl and Du Pont of a "conspiracy" to fix prices, per se. But the commission alleges both firms disclosed price increases in such a way as to tip their hands to the one another prior to the public notice of price changes.

These "preview announcements," the FTC said, were used to give other companies in the industry a chance to match any changes or give Ethyl and Du Pont a chance to adjust them, if the other major supplier failed to follow suit. The FTC says that once the two companies arrived at a price, smaller firms had to follow suit to survive.

The FTC charges were accompanied by an agency order requiring the two lead additive makers to abandon all "price matching" tactics. Under the order, neither company could disclose pending price changes to outside entities before the changes are announced publicly to customers.

The lone vote against the price-fixing charges came from FTC chairman James Miller. Miller called the ruling a "bold adventure" because it extends the definition of price fixing to cases in which no conspiracy has been proved.

Social Security Taxes Will Escalate in 1984

Like most employers, jobbers will find the taxes they pay under the Social Security system will be higher next year. Those who normally pay self-employment taxes, as well, will be paying substantially more to Social Security.

Both developments stem from the "reform" of the retirement system signed into law by President Ronald Reagan in April. Taxes for both employers and employees will rise from 6.7% of wages to 7% next January. In 1988, they will increase to 7.15% and in 1989, to 7.51%. The increase in employee taxes will be partly offset by a credit on income taxes, but that won't be available to employers.

Self-employment taxes will be boosted by 33% in January, bringing them in line with the amount of taxes that normally would be paid by both employer and employee on the same amount of wages. The large tax hike will be partly reduced by an income tax credit as well. The credit applies only to 1984, however.

running the pipeline around the waters of Puget Sound, instead of through it.

Even with a somewhat favorable reaction to the proposals from the siting committee, Northern Tier did not rate its chances for final approval as certain enough.

Major investors in the Northern Tier Pipeline project reportedly were in agreement with the decision to abandon the pipeline project. Those major investors include Getty Oil Co., Los Angeles, Burlington Northern Co. and CENEX, a regional farm cooperative based in St. Paul, Minn.

Despite its $3.5-million invested in the project, CENEX says it "won't experience a lot of negative impact because there always was a lot of uncertainty with Northern Tier." CENEX in recent years has purchased from Canadian sources about 40% of its crude stock for its 42,000 b/d Laurel, Mont., plant and its 54,150 b/d McPherson, Kan., plant. The company says that is has improved upon its contracts for Western Canadian crude and also has recently increased its own production.

On the other hand, Gerald Everett, executive director of the Northwest Petroleum Assn., (NWPA), says the abandonment of the Northern Tier project will have long-term effects for the central United States.

"We have relied on buying Canadian crude for some time, but now we purchase it on an exchange arrangement. Because of that, that supply could be cut off, should things erupt in the Mid-East," Everett said. Should that occur, Canada would be forced to cut exports in order to supply its internal energy needs.

"We had great hopes for that pipeline," said Everett. "A while back, refiners in the upper Midwest said that with an alternative supply of domestic crude, they could have doubled their 260,000b/d supply."

The crude pipeline reportedly would have doubled supply for upper Midwest refineries.

Small Planes Might Fly on Unleaded, Says FAA

The idea of using automotive gasoline in small general aviation aircraft apparently has caught the fancy of fliers and aircraft manufacturers alike.

After giving the Experimental Aircraft Association (EAA) permission to test auto fuel in a group of Cessna 150 planes, the Federal Aviation Administration (FAA) has been bombarded with requests to expand the experiment and last April held a public hearing to hear from aircraft manufacturers and pilot groups on the subject [NPN—Oct. '82, p12].

FAA officials now are reviewing the remarks made at the public hearing as well as written comments and were expected to issue several decisions by last month. The primary decision will be whether to expand the experimental use of motor fuel to aircraft other than the Cessna 150. If so, the FAA also will decide whether to streamline the approval procedure for using the gasoline in small aircraft.

The key to further use of gasoline in aircraft, according to FAA officials, is the distribution system. Currently, FAA rules say the pilot in command of an aircraft is responsible for insuring that the fuel he is using meets FAA standards, whether it is aviation gasoline or automotive gasoline. Any arrangements for supplying auto gasoline to airfields will have to have some method built in for monitoring the quality of the fuel.

On-Road Diesel Demand Tops 14.6-Billion Gal.

Trucks, buses and passenger cars consumed more than 14.6-billion gal. of diesel fuel in 1982, according to Lundberg Survey.

Texas was the No. 1 user of on-road diesel last year, with California second—a reversal of the two states' positions in gasoline consumption. For years, California has been the nation's biggest consumer of gasoline, with Texas coming in second.

The Lundberg Survey showed that Texas required close to 1.5-billion gal. of diesel in 1982, and California needed almost 1.3-billion gal. to satisfy its needs.

A state-by-state report follows:

State	Total
ALASKA	13,604
ALABAMA	295,625
ARKANSAS	239,641
ARIZONA	186,044
CALIFORNIA	1,268,629
COLORADO	189,004
CONNECTICUT	122,251
WASHINGTON D.C	19,280
DELAWARE	32,480
FLORIDA	572,415
GEORGIA	538,958
HAWAII	17,607
IOWA	280,402
IDAHO	87,503
ILLINOIS	546,705
INDIANA	602,342
KANSAS	209,107
KENTUCKY	247,797
LOUISIANA	313,704
MASSACHUSETTS	184,936
MARYLAND	193,396
MAINE	66,907
MICHIGAN	354,477
MINNESOTA	282,383
MISSOURI	382,747
MISSISSIPPI	176,096
MONTANA	108,169
NORTH CAROLINA	446,021
NORTH DAKOTA	96,965
NEBRASKA	140,326
NEW HAMPSHIRE	29,460
NEW JERSEY	374,381
NEW MEXICO	147,304
NEVADA	84,386
NEW YORK	400,780
OHIO	655,328
OKLAHOMA	362,073
OREGON	248,270
PENNSYLVANIA	653,639
RHODE ISLAND	25,601
SOUTH CAROLINA	246,465
SOUTH DAKOTA	77,120
TENNESSEE	405,593
TEXAS	1,490,326
UTAH	113,679
VIRGINIA	355,998
VERMONT	15,745
WASHINGTON	215,049
WISCONSIN	301,754
WEST VIRGINIA	100,205
WYOMING	108,556
Total U.S.	14,627,233

Shell, Exxon Lead Pack as Top TV Ad Spenders in '82

U.S. oil companies tightened their belts a bit in 1982 in their annual spending on television commercials for product promotion, according to the Television Bureau of Advertising.

Total TV spending for gasoline, lubricants and "other fuels" in 1982 amounted to $144.9-million, down 11.1% from 1981's total of $163.2-million. The television bureau identified "other fuels" as "almost anything liquid, like fuel oil, diesel fuel, or gasohol, for example."

The annual report has two basic categories—national "spot" television and "network" TV. 1982 spending for "spot" TV amounted to $90.1-million, up 7.3% over 1981. But in the network TV category, the shrinkage was significant—30.8%. The figures were $54.9-million in 1982, versus $79.2-million in 1981.

Mobil was the only oil company to be listed among the nation's top TV spenders. At that, however, it was ranked a mere 75th, with a total of $30.3-million for both spot and network TV. And, Mobil's budget included TV costs for Montgomery Ward and another subsidiary. So not all of the expenditures could be ascribed to oil products.

By way of contrast, Mobil's $30.3-million was far, far removed from such really big time operators as Proctor & Gamble, which led the 1982 list with $576.9-million, and General Foods, in second place with $303.2-million.

In the more limited category of gasoline and lubricant promotional spending, a special break-out made available to *NPN* by the TV bureau showed that Mobil spent only moderately on spot TV and nothing on national TV commercials, for only $6-million, all told.

Shell was the biggest spender in 1982 in this more limited definition of TV advertising. Shell spent a total of $15.7-million, besting Exxon by $700,000. Texaco was third with $10.8-million while Sun ranked fourth, with $10.0-million.

An interesting aspect of the 1982 TV fare, obviously reflecting the marketplace battles for gallonage, was Atlantic Richfield's impressive increase of 492% in spot TV advertising. Arco jumped from a mere $746,000 in 1981 to $4.4-million in 1982.

Exxon also increased its spot budget significantly—74%—from $6.2-million in 1981 to $10.8-million in 1982. But at the same time, Exxon gutted its national TV budget, reducing it from $20.6-million in 1981 to $4.2-million in 1982, a drop of 80%. [See table on this page for details.]

TV Advertising in 1982: How Much the Companies Spent

Spot TV

	1982 (Add 000)	1981 (Add 000)	% Change
Standard Oil (Ind.)	$12,562	$11,631	+ 8%
Exxon	10,804	6,223	+74
Standard Oil (Calif.)	7,756	8,518	- 9
Union Oil of Calif.	6,816	4,291	+59
Gulf	6,756	9,624	-30
Shell	6,243	7,416	-16
Mobil	6,006	8,993	-33
Getty	4,621	3,202	+44
Atlantic Richfield	4,414	746	+492
Sun	3,500	1,799	+95
Texaco	3,243	3,746	-13
Burmah Oil	3,048	2,856	+ 7
Ashland	2,796	2,069	+35
Pennzoil	2,623	2,522	+ 4
Quaker State	2,466	2,054	+20
Standard Oil (Ohio)	2,092	2,621	-20
Phillips	986	2,092	-53
Witco (Kendall)	697	681	+ 2
Amerada Hess	613	—	Inf.

Network TV

	1982 (Add 000)	1981 (Add 000)	% Change
Phillips	$9,731	$ 8,780	+11%
Shell	9,511	6,145	+55
Texaco	7,558	12,016	-37
Sun	6,461	5,367	+20
Quaker State	5,056	3,068	+65
Pennzoil	4,860	5,833	-17
Exxon	4,213	20,577	-80
Conoco	3,404	7,075	-52
Ashland	1,700	3,190	-47
Ford (Motorcraft)	720	1,305	-45
Witco (Kendall)	609	820	-26
Gulf	414	205	+102
Getty	320	—	Inf.

Source: Television Bureau of Advertising, from BAR, April, 1983.

The Leaders (Combined Totals)

	1982 (Add 000)	1981 (Add 000)	% Change
Shell	$15,754	$13,561	+16%
Exxon	15,017	26,800	-44
Texaco	10,801	15,762	-31
Sun	9,961	7,166	+39
Pennzoil	7,483	8,355	-10

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